Parkbridge
LIFESTYLE COMMUNITIES INC.

2006 Annual Report

CORPORATE PROFILE

Parkbridge is one of Canada's leading owners, operators and developers of residential and recreational land lease communities. Parkbridge's land lease communities are comprehensive developments designed and improved for the placement of a single family home or recreational dwelling. Parkbridge presently owns 60 land lease communities with over 12,900[1] sites and capacity to add a further 3,900 sites. The portfolio is concentrated in the provinces of Alberta, Ontario and Quebec.

The Corporation's principal objective is to own high quality assets capable of delivering stable cash flows and growth while, at the same time, providing residents with alternative lifestyle accommodations in a well-maintained and secure environment.

Parkbridge is listed on the Toronto Stock Exchange and its head office is in Calgary, Alberta.

(1) Includes 4 properties (1,146 sites) under binding purchase contracts

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Financial Highlights

	2006	2005	2004
Results of Operations			
Total Revenues	**69,863**	41,976	28,895
Income from Operations	**24,088**	16,677	9,523
Funds from Operations (FFO)	**14,311**	10,430	7,102
Net Income	**4,662**	3,401	(1,517)
Per Share (diluted)			
Funds from Operations (FFO)	**0.27**	0.20	0.15
Net Income	**0.09**	0.07	(0.04)

Share Information

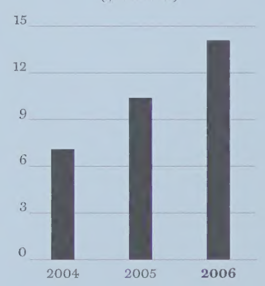
	2006		2005	
	HIGH	**LOW**	HIGH	LOW
Common	**5.95**	**4.45**	6.89	4.15
Non-voting	**5.25**	**4.11**	5.15	4.00
Number of shares outstanding				
Common		**24,573,012**		22,128,420
Non-voting		**36,771,266**		27,800,664

Number of Sites

(1) Includes properties under binding contracts

FFO Growth

($millions)



FELLOW SHAREHOLDERS

We are pleased to report on Parkbridge's performance for the second time since going public and to give our perspective on the outlook for the year ahead.

2006 Business Highlights

2006 was another year of solid progress in many areas of Parkbridge's business. Highlights of this year's major accomplishments are summarized below:

- Total sites within our property portfolio increased by 45% to over 11,200 sites at September 30, 2006, up from the 7,700 sites owned a year ago. Approximately 3,150 sites of the total site increase related to acquisitions and the remainder to those sites brought on stream through the ongoing build-out of our expansion projects. The cost of acquisitions completed in fiscal 2006 totalled $71.1 million.
- Another 1,707 sites are under binding purchase and sale agreements, of which, 561 sites closed subsequent to year end and the remainder of the sites are scheduled to close by the end of January, 2007. These acquisitions have a total cost of approximately $37.6 million and will, if closed, bring our total site count to 12,982 sites.
- A 30-acre "greenfield" development site in Cold Lake, Alberta was recently acquired which will accommodate 167 community sites. Construction is scheduled to begin next year. Our first "greenfield" development, Wasaga Meadows, has met with exceptional success. Construction of the 96 townhouse retirement community began last spring and 59% of the units have committed or conditional lease agreements and home sales contracts in place.
- Our expansion program gained significant momentum during the year as several new expansion projects were brought under active development. In 2006, approximately $20 million was invested in our expansion projects and, 391 newly developed sites were brought on stream and made available for lease-up.

  A significant number of the properties acquired during 2006 and, those yet to close, contain additional lands suitable for future expansion. With these additions, and assuming such closings, our capacity to add future expansion sites to our portfolio now stands at over 3,900 sites.
- New home sales closings totalled 212 units in our 2006 fiscal year, which in turn, resulted in the concurrent lease-up of a like number of newly developed expansion sites. The sales volume was up 68% over the 126 units sold in 2005.
- In June 2006, a $30 million private placement was completed consisting of a unit offering priced at $15.50 per unit, with each unit comprising one common share and two non-voting shares. The shares issued under the offering became freely tradable on October 26, 2006 and will help to increase the public float for both classes of shares.
- Negotiations resulting in the termination of the management agreement have been finalized and will result in the internalization of management effective September 30, 2006. The maximum base termination payment had been pre-established at $8 million at the time of Parkbridge's initial public offering. The termination will result in a payment of $8 million plus $400,000 for early termination. Concurrent with the termination of the management agreement, all outstanding share purchase loans, totalling $5.5 million, including accrued interest, will be repaid such that Parkbridge's net cash outlay will be approximately $2.9 million. The termination of the management agreement and the internalization of management will be accretive to Parkbridge and resulted in a one-time expense in the fourth quarter of 2006.

- In the 2006 fiscal year, $40.1 million of secured debt was raised at an average interest rate of 5.7%. Overall, the average interest rate on Parkbridge's secured debt has been reduced to 5.9% at September 30, 2006, from 6.1% a year earlier.
- And finally, new accounting and financial systems were introduced to facilitate the management and financial reporting of our substantially larger operations.

2006 Operating Performance

Income from property operations in 2006 grew by 45% to $20.6 million. The strong growth was the result of an 11% increase in same property results through the lease-up of new sites, operating improvements and rent increases with the balance attributable to properties acquired in 2006 and 2005. Funds from operations rose to $14.3 million an increase of 37% from the $10.4 million recorded last year.

Net income for the year was $4.7 million ($0.09 per share), as compared to net income of $3.4 million ($0.07 per share) in 2005. In 2006, the Corporation completed a number of transactions that were a carry-over from the going public initiative taken two years ago. These transactions, which included the internalization of management, discussed below, and the settlement of all management incentive plan obligations outstanding at the time of going public, resulted in one-time charges to net income of a pre-tax loss of $8.4 million and a $8.6 million income tax recovery respectively. A $2.1 million defeasance loss, recognized in the first quarter of 2006, also reduced net income. The cumulative result of these items was a decrease in net income of $1.9 million.

Our property portfolio continued to enjoy high occupancy and the demand for new sites within our communities and resorts remains strong. The 68% increase in year over year sales volume was significant; however, the high backlog of sales as we enter our 2007 fiscal year is even more encouraging. With 214 sales contracts in hand (140 firm sales contracts and 74 conditional sales contracts) we are on track to recording strong sales in 2007 and, with it, the concurrent lease-up of newly developed sites. These higher sales volumes are a reflection of the larger number of projects now under active development and growing customer recognition of the value proposition that quality land lease communities have to offer.

The Portfolio

We have seen significant portfolio growth over the last two years and continue to focus our acquisition drive on high quality properties located in areas with strong business fundamentals or in prime retirement and recreational destinations. The acquisitions referred to in our Business Highlights, have significantly bolstered the concentration of properties in Parkbridge's core geographic areas and have resulted in what we believe to be Canada's foremost portfolio of top quality land lease communities. Moreover, we believe, this portfolio will underpin Parkbridge's growth for many years to come.

During 2006, we acquired three of the premiere adult lifestyle communities in Ontario – Tecumseh Pines with 184 sites in Tottenham, Bluewater with 327 sites in Sarnia and, more recently, Black Creek with 376 sites (281 sites occupied) in Niagara Falls. The acquisition of these properties brings our ownership of adult lifestyle communities to twelve properties with 1,853 sites (or 3,333 sites on build-out of expansion sites). This includes Bay Moorings in Penetanguishene, where approval was recently received for the development of a 124 site "Cape Cod" style retirement community and a 64 site community scheduled to close in January 2007.

In the Kawarthas Lakes region, four properties were acquired – Melody Bay (185 sites), Bailey's Bay (306 sites), Beaver Narrows (384 sites) and Shady Acres (364 sites)

– bringing our total site count in the area to 2,357 sites (2,649 on build-out of expansion sites).

In South Georgian Bay, the pending acquisition of a large marina will give us the largest concentration of full service marinas in the Penetanguishene and Midland area. With over 1,200 marina slips, significant economics of scale will be realized in all aspects of our marina operations.

Our site count in Quebec will more than double with the addition of a 539 site mixed use property scheduled to close in January, 2007. All our Quebec properties are located within less than one hour's drive from Montreal.

In Western Canada, significant inroads were made in Northern Alberta where development of the first phase of our 167 site development in Cold Lake is expected to produce 90 developed sites by the summer of 2007. Expansion of our planned 300 site Trumpeter project in Grande Prairie will see 61 newly developed sites available for lease-up this spring.

Expansion Programs

The Corporation had 13 major expansion projects under active development which brought 391 newly developed sites on stream in 2006. With the addition of Bay Moorings and our Cold Lake and Grande Prairie projects, 2007 will see peak development activity spread among 16 projects. Capital expenditures in 2007 are expected to exceed $20 million which will be funded by internally generated cash flow. A significant portion of these costs will be expended to front end the cost of new projects and the balance to bring to completion several expansion projects in their final stages of development. Looking forward, we expect capital expenditures to remain at these levels through to 2008 and thereafter, to taper off normalizing in the $12 to $15 million range.

We continue to exercise caution over development expenditures and adhere to our policy of ensuring that on average no more than a two year supply of new sites is available for lease-up in any given project. Our total expansion capacity now stands at approximately 3,900 sites which represents a build-out program of approximately 7 to 10 years.

What Lies Ahead

We believe Parkbridge's business has a solid foundation and we remain optimistic about our prospects for the future. Parkbridge has built an irreplaceable franchise in a sector of the real estate industry that is unique and offers affordable and alternative choices for community and recreational living. This sector is at the very early stages of seeing the longer term benefits that demographic trends will bring. These positive trends, when combined with the growth Parkbridge is capable of generating through internal means, bode well for revenue growth both in the near and longer term. We also expect to continue to augment our growth by investing in properties compatible with our core assets even though investor awareness and competition within the sector has increased significantly since our initial public offering.

In closing, we would like to take this opportunity to thank the entire Parkbridge team – from operations, development and sales to accounting, finance and acquisitions – for their untiring effort and dedication, and to our Board of Directors for their guidance and support.

Joseph Killi
Chairman of the Board

David Rozycki
President, Eastern Operations and Co-CEO

Iain Stewart
President, Western Operations and Co-CEO

OUR BUSINESS

Overview

At its core, the business of Parkbridge is one of providing our customers with alternative choices for residential and recreational living in well located community settings. All our communities are based on a land lease concept in which the residents own the individual home or recreational unit and lease, from Parkbridge, the site on which their unit is located. This form of ownership results in a unique joint venture in which residents become long-term stakeholders in our properties.

Our residential properties consist of communities geared to an active adult lifestyle or oriented to family and seniors living. Recreational properties cater to a broad customer base consisting of families, retirees and seniors.

Lifestyle Communities

Our lifestyle communities are designed to provide an attractive, active lifestyle to our target customer group, early retirees and seniors. The 55 plus age group is the fastest growing segment of the population and Parkbridge is positioned to provide this generation with attractive housing and lifestyle options. Our lifestyle communities are located in sought after retirement areas and amenities such as large recreation halls, swimming pools, tennis courts, wood working shops, shuffleboard courts, ponds and walking trails are typically provided on site. Golf courses, shopping venues and a large array of other amenities are usually located in close proximity.

Residents' homes are designed specifically for this target customer group and range in size from 1,000 to 2,000 square feet. The

homes are built under controlled conditions to standards that meet or exceed local construction codes. Finishes such as stainless steel appliances, en-suite baths, vaulted ceilings, hardwood floors and fireplaces are commonly utilized. Homes are well priced ranging from $150,000 to $200,000. These price levels are attractive to many retirees since they are able to unlock substantial equity through the sale of their existing home and use the liquidity to meet their retirement needs. Parkbridge owns 12 lifestyle communities, containing over 1,853 sites (3,333 sites on build-out of expansion sites).

Family and Seniors Oriented Communities

Parkbridge's family and senior oriented communities offer working families and seniors with an affordable housing alternative in a community setting. The majority of these communities are located in high growth metropolitan areas, and provide residents with large landscaped lots and, in many cases, include common facilities such as club houses and green spaces. Homes are well constructed and typically include upgraded finishes, appliances and packages for carports and garages. Price points are generally lower than in the lifestyle communities, ranging in price from

Typical Characteristics of Parkbridge's Communities and Resorts

	Communities	Resorts
Lot Rental	$250 to $450 per month	$1,600 to $3,200 per season
Lot Size	4,500 to 6,000 sq. ft.	4,000 to 6,000 sq. ft.
Home Size	1,000 to 1,800 sq. ft.	250 to 540 sq. ft. Cabins: 900 to 1,200 sq. ft.
Price of Home	$80,000 to $200,000	$25,000 to $70,000 Cabins: $90,000 to $120,000
Construction Type	Manufactured homes on reinforced frames Modular	Resort units (Resort cottages, cabins, recreational vehicles and marine craft)
Seasonality	Year round occupancy	Seasonal uses (in some cases, year round)
Construction Features	Quality equal to site built "stick" structures, Jacuzzi's, upgraded finishes, skylights	Fully outfitted, pop-outs, decks or high quality frame structures
Lease Tenure	Month to month, Annual, 20-years. Annual rent adjustments	Seasonal or daily. Annual rent adjustments
Operating Cost Recoveries	Lifestyle - all operating costs seniors/family - all utilities	Resorts - all utilities

$80,000 to $150,000 and home sizes tend to be smaller, ranging in size from 900 to 1,500 square feet. Quite often, the homes are financed with mortgage loans on terms that are competitive with conventional residential mortgages. Parkbridge owns 31 family communities containing 5,393 sites (6,865 sites on build-out of expansion sites).

Resorts

Our recreational or resort properties are designed to provide residents an affordable cottage experience in a recreational unit consisting of a cabin, resort cottage or recreational vehicle ("Resort Units"). Most properties have water front locations and are within a one and a half hour drive of large metropolitan markets such as Toronto and Montreal. Numerous amenities complement the water front locations including boat docks, marinas, restaurants, golf courses, playgrounds, sports fields and swimming pools.

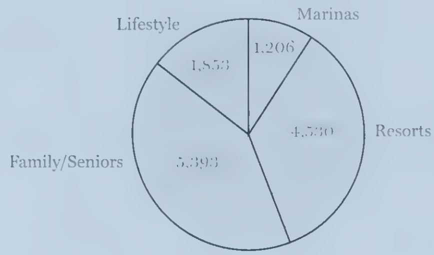
Resorts have characteristics similar to our residential communities but are generally geared to seasonal use. Residents purchase their Resort Unit and locate it on a site typically leased for a full season which spans six months from mid-May to mid-October. Most residents return year after year, and turnover rates average less than 10% per annum. Vacancies are rare as most residents elect to sell their Resort Unit on site and pay rent until the Unit is sold. Parkbridge owns 16 large scale resorts containing 5,736 sites.

Parkbridge's resort properties include three full service marinas in the South Georgian Bay area of Ontario. Marinas are complementary to resorts in that they provide residents with a location to enjoy the use of their recreational unit. Our marina docks can accommodate boats ranging in length from 25 to 60 feet and are typically rented on a seasonal basis. Turnover rates are low and additional income is earned in the off season through outside or inside boat storage.

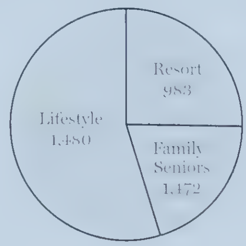
Financial Stability

Land lease communities and resorts offer a level of financial stability which we believe is superior to most other real estate asset classes. Typically, communities and resorts enjoy close to full occupancy, low turnover rates and recurring capital expenditures lower than those incurred in other real estate sectors. Since the residential or recreational dwelling is almost always sold on site, there is little or no interruption in the rental payment stream. Leases generally provide for the pass-through of operating costs such as utilities and, in the case of the newer lifestyle communities, a full pass-through of operating costs. The barriers to entry are high due to the high cost of land and difficulty in obtaining zoning, which shields the industry from overbuilding.

12,982 Total Sites

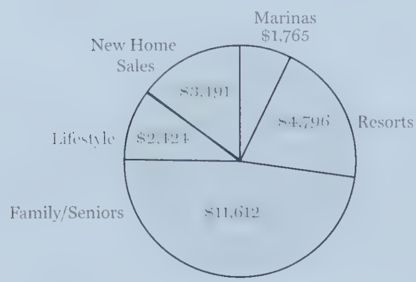


3,935 Expansion Sites



2,952 Residential Sites

2006 Income from Operations
($000s)

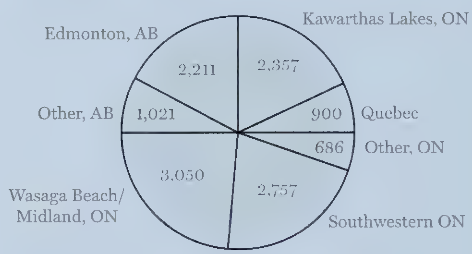


$24,088 Income from Operations

PROPERTY LISTING

The properties acquired this year, including those yet to close, helped us to increase our critical mass in our core geographic areas.

Geographic Distribution



12,982 Sites

Summary of Property Portfolio

The following table sets forth information pertaining to the Property portfolio held by Parkbridge as at December 7, 2006 (including those under binding purchase contracts).

Properties	Location	No. of Acres	Operational Sites(1)	% Occupancy	Average Rental Rate(2)	Developed Sites(1)	Future Expansion Sites	Year of Original Development/ Expansion	Year Acquired
COMMUNITIES									
ALBERTA									
Lifestyle									
Ranch Estates	Strathmore, AB	22	116	100%	403	1	–	1995/2000	2004
		22	**116**			**1**	**–**		
Family/Seniors									
Maple Ridge	Edmonton, AB	86	442	100%	380	7	–	1976/2002	1998
Oak Ridge	Edmonton, AB	40	282	100%	380	7	127	1980	1998
Evergreen	Edmonton, AB	149	696	100%	375	–	58	1973/1978	2003
Parkland Village	Spruce Grove, AB	160	672	99%	370	105	43	1975/2001 -2003	1998
Coachman Village	Grande Prairie, AB	12	82	99%	380	–	–	1976	2005
Trumpeter Village	Grande Prairie, AB	60	93	98%	335	–	208	–	2006
Fontaine Village	Cold Lake, AB	30	–	–	–	–	167	–	2006
Mile West	Lac La Biche, AB	160	29	44%	200	35	150	–	2003
Wild Rose	Brooks, AB	22	157	97%	279	–	–	1978/1996	2005
Wildwood	Cold Lake, AB	15	91	99%	265	–	–	1980	2005
Creekside	Cold Lake, AB	15	61	100%	245	–	45	1985	2005
Jubilee Estates	Wetaskiwin, AB	11	79	90%	275	–	2	1976	2005
Wainwright	Wainwright, AB	6	34	76%	230	–	–	–	2005
Under Contract		33	243	100%	354	–	–	1975	2007
		799	**2,961**			**154**	**800**		
Total – Alberta		**821**	**3,077**			**155**	**800**		

Summary of Property Portfolio Cont'd

Properties	Location	No. of Acres	Operational Sites[1]	% Occupancy	Average Rental Rate[2]	Developed Sites[1]	Future Expansion Sites	Year of Original Development/ Expansion	Year Acquired
COMMUNITIES									
ONTARIO/QUEBEC									
Lifestyle									
Park Place	Wasaga Beach, ON	92	264	100%	292	63	47	1997 – 2006	2000
Wasaga Meadows	Wasaga Beach, ON	15	15	100%	–	57	144[3]	2005	2004
Village at Bay Moorings	Penetanguishene, ON	40	–	–	–	–	124	–	2004
Tecumseh Pines	Orangeville, ON	72	184	100%	350	–	–	1983	2005
Antrim Glen	Hamilton, ON	123	171	100%	270	44	74	1997 - 2006	2003
Cherry Hill	Vineland, ON	28	32	100%	320	55	297[4]	1998/2004	2004
Black Creek	Niagara, ON	81	281	100%	405	95	150	1990	2006
Bluewater	Sarnia, ON	75	270	100%	240	57	100	1994	2006
Albion Woods[6]	Ottawa, ON	133	–	–	–	–	544	2005	1999
Riverview	Exeter, ON	13	84	100%	233	–	–	1976	2006
Under Contract		14	58	100%	260	6	–	1995	2006
		686	**1,359**			**377**	**1,480**		
Family/Seniors									
Klondike/Hometown	Wasaga Beach, ON	197	322[5]	78%	247	1	–	1968/1975	2002
Georgian Glen	Wasaga Beach, ON	16	79	99%	367	11	10	1975	2005
Joy Vista	Lindsay, ON	31	99	100%	229	–	–	1970	2002
Sama	Havelock, ON	145	150	100%	202	–	100	1972/1991	2001
Rockhaven	Ottawa, ON	40	80	100%	249	–	100	1973	2003
Albion Sun Vista[6]	Ottawa, ON	30	125	100%	310	3	2	1972/2002	1999
Lougheed	Port Hope, ON	27	80	100%	266	–	–	1978	2005
Beverly Hills	Hamilton, ON	56	168	100%	321	–	–	1971	2003
Martin Grove	Waterloo, ON	27	137	100%	354	–	27	1962	2005
Huron Park	Exeter, ON	117	358	82%	440	3	200	1940/2006	2006
Northville	Thedford, ON	50	16	100%	254	12	152	1990	2005
Bramhall	Midland, ON	49	77	100%	167	–	50	1970	2006
Saugeen Acres	Port Elgin, ON	13	56	100%	238	–	–	–	2006
Renmore	Tillsonburg, ON	10	54	99%	161	1	–	1954	2006
Vestavale	Thunder Bay, ON	33	85	100%	276	–	–	1972	2005
Parc Remillard	La Prairie, QB	56	291	100%	185	–	1	1978	2005
Maison Richelieu	Richelieu, QB	10	70	100%	195	–	30	1972	2006
		907	**2,247**			**31**	**672**		
Total – Ontario/Quebec		**1,593**	**3,606**			**408**	**2,152**		
Total Communities		**2,414**	**6,683**			**563**	**2,952**		
RESORTS									
ONTARIO/QUEBEC									
CountryLife	Wasaga Beach, ON	120	428[7]	99%	1,900	57	192	1967/2004/05	2002
Wasaga Pines	Wasaga Beach, ON	56	281[8]	99%	1,650	3	–	1972/1992	2000
Wasaga Dunes	Wasaga Beach, ON	70	186	97%	1,500	–	–	1965/2002	2001
Pioneer Point	Peterborough, ON	85	313[9]	100%	2,050	22	70	1969/2003/05	2002
Lonesome Pine	Bobcaygeon, ON	88	243[10]	100%	1,700	24	33	1972	2004
Melody Bay	Kawartha Lakes, ON	34	185[11]	96%	1,900	–	–	1977/1982	2006
Bailey's Bay Resort	Peterborough, ON	82	306[12]	93%	2,400	16	103	1978/2004	2005
Beaver Narrows	Omemee, ON	48	384[13]	97%	1,970	–	–	1975/1996	2005
Goreski Landing	Port Perry, ON	123	500[14]	99%	2,000	–	86	1963	2004
Shady Acres	Peterborough, ON	84	364[15]	100%	1,500	–	–	1970	2006
Spring Valley	Mt. Forest, ON	170	278[16]	93%	1,700	5	59[16]	1975	2001
Our Ponderosa	Grand Bend, ON	126	388	99%	1,900	8	100	1970/2005	2005
Under Contract		50	539[17]	96%	1,475	–	200	1995/2005	2006
Marinas									
Bay Port Marina	Midland, ON	38	565 Slips[18]	97%	3,390	–	–	1992/1998	2005
Bay Moorings Marina	Penetanguishene, ON	9	341 Slips[19]	100%	2,400	–	–	1976	2004
Under Contract		–	300 Slips[20]	100%	3,100	–	140	1968/1988	2006
Total Resorts		**1,183**	**5,601**			**135**	**983**		
TOTAL		**3,597**	**12,284**			**698**	**3,935**		

(1) Operational Sites are those sites within the portfolio that have been leased to a resident at least once after acquisition. The portfolio also contains Developed Sites brought on stream as part of the expansion program, which require varying lead times to lease-up.
(2) Average Rental Rate for Communities is the monthly rental rate per Operational Site. Cost recoveries from residents are not included. The Average Rental Rate for Parkbridge Resorts is the annual seasonal charge per site excluding all cost recoveries from residents.
(3) Includes 120-bed retirement home.
(4) Includes 168 seniors apartment units.
(5) Klondike/Hometown are two separate Properties but are managed as one. 130 sites are residential sites. Preliminary plans are in place to convert the 192 resort sites to approximately 100 residential sites.
(6) Albion Sun Vista and Albion Woods are 75% owned by Parkbridge.
(7) Property is connected to municipal services and accommodates year round usage.
(8) Property has 50 year round sites.
(9) Property also has 156 boat slips.
(10) Property also has 182 boat slips.
(11) Property also has 135 boat slips
(12) Property also has 124 boat slips.
(13) Property also has 109 boat slips.
(14) Property also has 408 boat slips.
(15) Property also has 170 boat slips and includes 63 residential sites.
(16) Includes 38 residential sites. Expansion sites are all residential sites.
(17) Includes 89 residential sites.
(18) Property consists of a full service marina with 565 large boat slips.
(19) Property consists of a full service marina with 341 large boat slips.
(20) Property consists of a full service marina and 300 large boat slips.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Certain statements in this report may contain forward-looking information. Such forward-looking information involve risks, uncertainties and other factors which may cause actual results, performance or achievements of Parkbridge Lifestyle Communities Inc. ("Parkbridge" or "the Corporation") to be materially different from any future results, performance or achievements expressed or implied by such forward-looking information.

The following management's discussion and analysis ("MD&A") of the financial condition and results of operations of Parkbridge has been prepared by management and should be read in conjunction with the consolidated financial statements of Parkbridge as at and for the year ended September 30, 2006. Additional information is available on SEDAR's Web site at www.sedar.com. The date of this MD&A is December 7, 2006.

Business Overview

Parkbridge is Canada's leading owner, operator and developer of land lease residential Communities ("Communities") and seasonal recreational resorts ("Resorts"), holding, as of September 30, 2006, a portfolio of 53 Communities and Resorts with over 11,200 sites and expansion capacity to add approximately 3,400 sites. Parkbridge's assets are in Alberta, southwestern Ontario and Quebec.

On December 23, 2004, the Corporation completed a reorganization with the exchange of all of the units of Parkbridge 2003 Limited Partnership ("the Partnership") for aggregate consideration of $103 million paid by cash, common and non-voting shares of the Corporation. The Partnership was considered the continu-

ing entity for accounting purposes. Therefore the comparative financial results reported are the historical results of the Partnership for the year ended September 30, 2005, combined with the results of B-For-G Capital Inc. ("B-For-G") since the date of closing the transaction, being December 23, 2004. In connection with the reorganization, the Corporation raised approximately $42 million, followed by a further $30 million in June 2006 in gross proceeds through a private placement subscribed to, in large part, by institutional investors.

Communities and Resorts are comprehensive developments, designed and improved for the placement of single-family homes, or recreational homes or vehicles ("Resort Units").

Communities and Resorts share common characteristics such as:

- The property owner leases a site to a resident upon which the resident locates his residential home or Resort Unit, which is owned by the resident;
- A strong sense of community is developed due to the range of common services, activities and amenities offered, and neighbours of similar age and interests; and
- Rents are established at levels which offer sound value and affordability to the average consumer.

Communities

Communities are residential communities designed and improved for the placement of detached, single-family homes on sites located within the Community. Communities are based on a land lease concept in which the owner of each home leases the site on which his home is located from the owner of the Community. Residents usually enhance their homes by adding porches and garages and, unlike most apartment tenants, have a long-term stake in the property because the resident owns the residential home. Services such as sewer and water are provided either by the local municipalities or by on-site facilities maintained by the owners of the Communities.

Once established, well-managed Communities generally maintain a high occupancy level, providing stable and increasing cash flows. Turnover of residents is usually low, generally in the range of 5% - 10% per annum. Most homeowners that move out of a Community sell their home, which remains on the site. The buyer enters into a new lease with the owners of the Communities and becomes a new resident. Most leases are on a monthly or yearly basis (though some extend to 99 years) with renewal options and rental adjustments made annually.

Each Community is generally designed to attract, and is marketed to, retirees and empty-nesters, or families, seniors and first-time homeowners. Many lifestyle-oriented Communities provide services and amenities directed at empty nesters or retirees, such as recreation centres, tennis courts, golf courses, bridge clubs, shuffleboard, laundry facilities, maintenance

and security. These types of services, activities and amenities help foster a sense of community. Community rules and regulations govern residents' activities and restrict practices that devalue and reduce enjoyment of the Community.

Product quality of the homes within Parkbridge's Communities is high whether the homes are built on site or off site. Design and construction are governed by strict regulatory standards and match the building codes of the jurisdictions in which the Communities are located. Amenities such as fireplaces, whirlpool tubs, sunken living rooms and bay windows are common.

Community ownership is a large, established industry in the United States. Parkbridge estimates that there are more than 7,500 investment grade Communities in the United States. In Canada, Parkbridge estimates that there are 300 to 400 investment grade Communities with large concentrations in Alberta, British Columbia and Ontario. The term investment grade typically refers to Communities with 100 sites or more and a good infrastructure.

Resorts

Resort ownership is a well-established business in Canada and in Ontario alone, there are approximately 1,200 private Resorts with a total of 110,000 sites. Approximately 80% of the private Resort sites are rented by the season to owners of Resort Units which consist of resort cottages, cabins and recreational vehicles. Most Resorts cater to families, active adults and retirees who place used (generally valued between $10,000 and $25,000) or new (generally valued between $25,000 and $60,000) Resort Units on a site for the season. Repeat business is high, with turnover among seasonal users generally between 5% - 10%. The season typically runs from mid-May to early October, with Resort Units normally staying on a site year round. Typically, 10% of Parkbridge's Resort sites are reserved for overnight/transient use as a means of continuously exposing the resort and maintaining a constant demand for seasonal resort sites.

Parkbridge also operates several marinas in the South Georgian Bay area. Marina operations are similar to Resorts since the principal service provided to the customer is the rental of a location from which the customer is given the opportunity to experience enjoyable and affordable use of his or her Resort Units. The South Georgian Bay area has several deep water marinas with over 2,600 boat slips. Marina slips are typically rented on a seasonal basis and turnover is in the 10% range. However, the value of the Resort Unit is higher than in most other Resorts, typically in the $50,000 to $500,000 range.

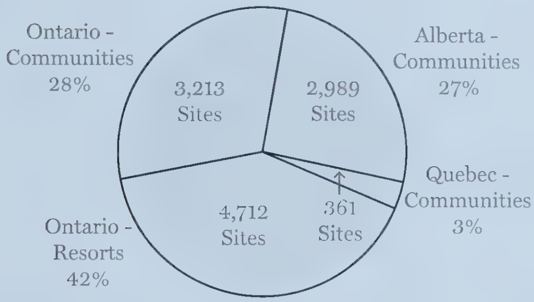
Generally, once a Resort Unit (other than in the case of marinas) is placed on a Resort site, it never moves unless it is replaced with a newer unit. The aim is for tenants to view the recreational dwelling as mini-cottages and become long-term stakeholders in the Resort enhancing cash flow stability with little or no interruption in rental payments.

The number of seasonal Resorts is decreasing as Resorts are converted to other higher margin uses, while at the same time, demand for seasonal Resorts is increasing as more people seek affordable recreational vacation experiences.

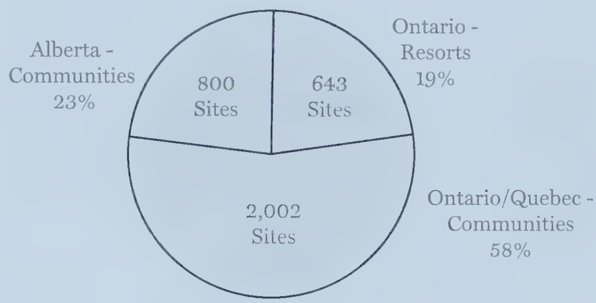
Portfolio of Properties

Parkbridge's properties are located in geographic areas exhibiting economic fundamentals that meet Parkbridge's criteria for investment. The geographic composition of the portfolio as at September 30, 2006 is as follows:

Total Sites – 11,275



Expansion Sites – 3,445



The Corporation's Resorts are generally located within 2 hours of Toronto with waterfront or easy lake access. The Corporation's Resort property income is derived from site rentals to owners of Resort Units, including boat slip rentals to pleasure craft owners and income from miscellaneous services provided.

Leases

The majority of Parkbridge's Communities and Resorts are leased to year round residents or to those seeking seasonal recreational or vacation sites. Any significant vacancies usually result from the "leads and lags" associated with the timing of preparing new expansion sites and initially leasing the sites and placing new units thereon.

Lease terms vary significantly among Communities and Resorts. Most leases in Parkbridge's Communities are on a month-to-month or year-to-year basis and provide for ongoing renewals (with rent adjustments, subject to any rent controls) provided that rental payments are not in arrears and the resident adheres to the rules and regulations of the Community. In Ontario, leases in newer projects generally provide for longer lease terms (i.e. 20 to 99 years plus renewals) with annual rent adjustments and the pass-through of operating costs, utilities and property taxes. Most jurisdictions have legislation which sets out the rights and obligations of tenants and landlords. In those provinces where rent controls are in effect, rental rate increases are prescribed annually (subject to additional increases which effectively allow for the recovery of certain capital improvements). Currently, Communities in Ontario developed pre-1992 and those in Quebec are subject to rent controls

whereas those developed after 1991 in Ontario and Communities in Alberta are not subject to rent controls. Of Parkbridge's portfolio, only 2,223 sites are subject to rent controls.

Most leases for Parkbridge's Resort sites are on a seasonal basis which typically entitle the resident to occupy a Resort site year-round although the operational use is limited to the six month period from mid-May to mid-October. Parkbridge's Resort sites are generally metered to allow for the pass-through of utility charges. Generally, rents for Resort sites are adjusted annually and dictated by market forces. Rent controls and landlord/tenant acts are not applicable to Resorts.

Growth Strategy

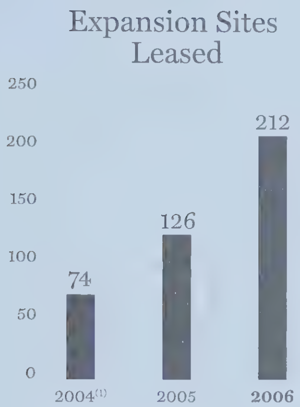
Parkbridge's principal objective is to create Canada's foremost vehicle for the ownership, operation and development of Communities and Resorts, while at the same time seeking out niche opportunities in the seniors housing facilities industry. The growth strategy includes generating growth internally, through the implementation of detailed operating plans for each property directed at improving returns and maximizing each property's expansion potential, as well as externally, through acquisitions.

The following chart shows the changes in the number of sites for the past two fiscal periods.

	Alberta	Ontario	Quebec	Total
September 30, 2004	2,183	3,044	–	5,227
Developed	63	99	–	162
Acquired	621	1,716	–	2,337
September 30, 2005	2,867	4,859	–	7,726
Developed	29	362	–	391
Acquired	93	2,704	361	3,158
September 30, 2006	2,989	7,925	361	11,275

The Corporation completed the acquisition of seventeen properties during the year ended September 30, 2006 at a total acquisition cost of $71.1 million, (year ended September 30, 2005 – fifteen properties total acquisition cost of $50.1 million). In addition to the sites acquired, expansion lands with capacity to add approximately 960 sites to its portfolio were obtained as part of the acquisitions (year ended September 30, 2005 - 791 sites).

At September 30, 2006, Parkbridge had 600 developed sites (included in table above) available for lease up of which 128 sites have firm lease contracts and 89 sites have conditional contracts in place at November 1, 2006. A like number of new home sales contracts have been entered into in respect of homes to be located on sites leased, including those conditionally leased. Expansion programs at 16 of Parkbridge's properties are now being undertaken on a phased basis and are expected to bring over 1,300 newly developed sites on stream over the next three years. The chart below shows the number of expansion sites which have been leased up in each of the past three fiscal periods. When Parkbridge enters into a lease arrangement for a newly developed site to be rented by a new resident, it concurrently enters into a sales contract for a new home which is to be situated on such site.



(1) Nine months ended September 30

Parkbridge has also entered into six purchase and sale agreements to acquire, subsequent to September 30, 2006, three Communities (683 sites expandable to approximately 833 sites) and three Resorts (1,024 sites, expandable to approximately 1,364 sites) for a total cost of approximately $37.6 million. Two of these acquisitions have been completed, (one Community and one Resort) while the remaining four are expected to be completed by January 2007. When these acquisitions are completed, a total of 23 properties containing 2,090 Community sites and 2,775 Resort sites (excluding expansion sites) will have been acquired since September 30, 2005, representing an 63% increase in our portfolio from September 30, 2005. Acquisitions have been funded from available cash resources derived from operations, the $30 million equity issue completed in June of 2006 and through a mix of long and shorter term property financings from commercial lending sources.

The Corporation plans to continue consolidating the ownership of land lease communities in Canada and supplement its growth by completing further acquisitions. As Parkbridge utilizes stringent investment criteria, including geographic location, minimum return hurdles and future upside potential, there is no assurance as to the number of properties the Corporation can acquire in the future that meet these criteria.

Review of Operations

Parkbridge generates income from two primary operating sources, rental operations from occupied sites within its Communities and Resorts and new homes sales operations. The sales income is derived primarily from the sale of new homes or Resort Units to be sited on Parkbridge's newly developed expansion sites, although some income is generated from brokerage and resale operations. The lease-up of expansion sites brought on stream through the development process is the principal driver of the sale of new homes. Unlike typical housing operations, Parkbridge retains the ownership of the land, thereby retaining a significant income stream beyond the sale of the home or Resort Unit. Parkbridge's extensive expansion program spans a 7 to 10 year time horizon which Parkbridge expects will result in a significant number of newly leased sites being brought on stream each year and result in ongoing new home sales income.

Income from Operations

The following information highlights the operating results of the Communities and Resorts. In the discussion, Management refers to "same store" amounts which is defined as being income amounts generated by properties owned by the Corporation for a full twelve months in each of the last two fiscal years. Same store amounts do not have a standardized meaning prescribed by generally accepted accounting principles ("GAAP") and therefore may not be comparable to similar measures prescribed by other users. Users should be cautioned that this measure should not be construed as an alternative to net income.

	Year ended September 30 2006	Year ended September 30 2005	Nine months ended September 30 2004
COMMUNITIES			
Average number of sites	5,921	3,893	3,518
Number of home sales	164	135	46
($000's)			
Rental and other property income	22,430	15,531	9,898
Property operating expenses	(8,396)	(5,356)	(3,172)
Income from property operations	14,034	10,175	6,726
Home Sales, net	2,632	1,822	878
Income from Operations	16,666	11,997	7,604

Income from property operations of $14.0 million for the year ended September 30, 2006 is up 38% over the $10.2 million earned during the year ended September 30, 2005. Same store income from property operations for the year ended September 30, 2006 rose 9% or $0.8 million to $9.8 million from the year ended September 30, 2005 as a result of rental increases and lease up of expansion sites.

Acquisitions completed during the year ended September 30, 2006 contributed $2.2 million to income from property operations for the current fiscal year. Acquisitions completed during the year ended September 30, 2005 contributed $2.0 million to income from property operations in the year ended September 30, 2006 or $0.8 million more than they contributed last year.

The following table summarizes income from operations by the year properties were acquired:

($000's)	Year ended September 30 2006	Year ended September 30 2005	Change	% (1)
Same store	9,796	9,020	776	9
2005 acquisitions	1,998	1,155	843	73
2006 acquisitions	2,240	-	2,240	-
	14,034	10,175	3,859	38%

(1) percent is expressed in terms of percentage of the fiscal 2005 total

Operating margins at our Communities were 62.6% in 2006, down slightly from the 65.5% reported last year. The decrease is primarily as a result of the large number of properties acquired in 2005 and 2006. Properties, when acquired by Parkbridge, typically are operating at lower margin levels than Parkbridge's properties. Management implements a program post acquisition to improve these margins, however it does take some time to bring these programs into full effect. As acquisitions completed in fiscal 2005 and 2006 accounted for 33% of the rental revenue generated by Communities in 2006 compared to 11% during the year ended September 30, 2005, a three percent decrease in margins was not unexpected.

New home sales increased to 164 homes in the year ended September 30, 2006 (65 sales for the three months ended September 30, 2006). During the year ended September 30, 2005, the Corporation completed 81 home sales (36 sales for the three months ended September 30, 2005). The startup of several new expansion projects in our adult lifestyle Communities and increased demand in Alberta were the main reasons for the increase in home sales volumes. Home sales operations are seasonal in nature, with significantly more closings in the third and fourth quarters of each fiscal year. In adult Communities, most of these homes are pre-sold and custom built under controlled conditions either off-site or on-site. As home sales income is only recognized upon transfer of title to the home, inventory levels rise in the months preceding the periods when sales are completed. Presently, the Corporation has 127 firm and 73 conditional sales contracts in hand for delivery of homes in fiscal 2007.

	Year ended September 30 2006	Year ended September 30 2005	Nine months ended September 30 2004
RESORTS			
Average number of sites	4,300	2,712	1,652
Number of home sales	48	45	28
($000's)			
Rental and other property revenue	18,044	10,128	2,801
Property operating expenses	(11,481)	(6,085)	(1,253)
Income from Property operations	6,563	4,043	1,548
Home sales, net	859	637	371
Income from operations	7,422	4,680	1,919

Income from property operations generated by Resorts increased to $6.6 million for the year ended September 30, 2006. This was a 62% increase over the $4.0 million generated in the year ended September 30, 2005. Same store income increased by $0.4 million to $2.1 million or a 22% increase over the $1.7 million earned during the year ended September 30, 2005. This increase is due to lease up of sites at Country Life and rent increases at all properties.

The Resort acquisitions completed during the year ended September 30, 2005 contributed $1.5 million to income from property operations for the current fiscal year. Acquisitions completed during the year ended September 30, 2005 contributed an additional $0.6 million to income from property operations during the current fiscal year compared to their

contribution during the year ended September 30, 2005. This was a 28% increase over the $2.3 million those properties contributed for the year ended September 30, 2005.

The following table summarizes income from operations by the year properties were acquired:

($000's)	Year ended September 30 2006	Year ended September 30 2005	Change	%(1)
Same store	2.116	1,722	394	23
2005 acquisitions	2,970	2,321	649	28
2006 acquisitions	1,477	-	1,477	-
	6,563	4,043	2,520	62%

(1) percent is expressed in terms of percentage of the fiscal 2005 total

Operating margins at Resort properties were 36.4% for the year ended September 30, 2006 compared with 39.9% recorded during the previous year. As with Community acquisitions, Resorts acquired typically operate at a lower margin than Parkbridge's Resorts and efficiencies implemented by Parkbridge on acquired properties take some time to put into effect. In addition, the parts sales and service component of marina operations have a dampening effect on overall operating margins. A full year of the Bay Port marina operations in 2006 versus only a partial year in 2005 resulted in reduced margins. If Marina parts sales and service revenues and expenses were reported on a net basis, Resort operating margins would be 47.0% for the year ended September 30, 2006 and 49.7% for last year.

During the year ended September 30, 2006, the Corporation sold 48 Resort Units to new tenants generating $859,000 in income from sales as compared to $637,000 (45 Resort Units) in the 2005 fiscal year. The Country Life property continues to be the main contributor to sales income, accounting for 75% of the sales volume. Sales in its new phase permitted a 10% increase in the average sales price resulting in the increased margin per unit for the year ended September 30, 2006. Presently, Parkbridge has 57 newly developed sites completed on that property and 13 firm sales contracts are in hand for delivery in fiscal 2007.

Interest Expense

Interest expense increased to $6.9 million for the year ended September 30, 2006 as compared to $3.8 million reported last fiscal year. The increase is due to additional financing secured by properties acquired or refinanced during 2006. During the year ended September 30, 2006, the Company raised $31.0 million through long term financing and assumed $19.3 million of debt in respect of properties acquired. In December of 2005, the Corporation completed a $22.5 million refinancing of one of its properties by defeasing $10.5 million of existing debt. The refinancing raised $10 million of net proceeds, extended the term of the debt to ten years and will result in interest savings of approximately $300,000 on the defeased debt in each of the next five years. The cost of defeasing the existing debt resulted in a defeasance loss of $2.1 million during the year.

The increase in interest expense was offset partially by the capitalization of interest costs incurred on funding the higher volume of development projects included in our expansion programs. Parkbridge only capitalizes interest costs incurred in respect of expansion projects under active development and does not capitalize interest costs related to land holdings. The Corporation ceases to capitalize interest costs on the earlier of the lease up of the site or the lapse of eighteen months to two years depending upon the estimated lease-up period from the time of completion of development of the site. During the year ended September 30, 2006, the Corporation capitalized $619,000 of interest costs compared to $259,000 in the year ended September 30, 2005. The increased capitalization was the result of the increased development activities during the year.

The weighted average interest rate on debt outstanding for the year ended September 30, 2006 was 5.93% (6.10% for the year ended September 30, 2005). At September 30, 2006, the Corporation's fixed rate debt had a weighted average interest rate of 5.87%.

Funds from Operations

Management utilizes a measure called Funds From Operations ("FFO") to assess and evaluate its return on each of its projects as well as the performance of the enterprise as a whole. FFO does not have a standardized meaning prescribed by GAAP, and therefore may not be comparable to similar measures presented by other issuers. Parkbridge defines FFO as being net income for the year before depreciation on capital assets, stock-based compensation expense, internalization costs, future income tax expense and deferred credits in income tax expense. Users should be cautioned that this measure should not be construed as an alternative to net income.

In the table below, Parkbridge provides a reconciliation of net income in accordance with GAAP to FFO for each of the periods ended September 30.

($000's)	Year ended September 30 2006	Year ended September 30 2005	Nine months ended September 30 2004
Net income (loss) per income statement	4,662	3,401	(962)
Add (Deduct)			
Defeasance loss	2,097	–	–
Depreciation	3,948	2,378	1,354
Stock based compensation	2,310	4,013	4,863
Internalization costs	8,400	–	–
Future income taxes	(7,106)	2,926	336
Deferred credit	–	(2,288)	–
Funds from operations	14,311	10,430	5,591
FFO – per share (diluted)	0.27	0.20	0.15

Funds From Operations of $14.3 million for the year ended September 30, 2006 increased by 37% when compared to the $10.4 million reported for the year ended September 30, 2005. Same store growth resulting from our expansion program and rent increases accounted for 10% of the percentage increase whereas the remaining 27% is primarily the result of the acquisitions completed during the last two years.

Other

Interest income for the year ended September 30, 2006 was $409,000 compared to the $168,000 earned the prior fiscal year. The increase is due to interest earned on the defeasance assets utilized to secure the defeased debt discussed in the Interest Expense section above and on cash deposits resulting from the $30 million equity issue completed in late June, 2006.

Asset management expenses increased to $2.8 million for the year ended September 30, 2006 from $1.9 million for the year ended September 30, 2005. The increase was due to the increased administrative and regulatory requirement of being a public company for a full year in fiscal 2006 versus only nine months in fiscal 2005 along with the significant growth experienced in both years. Capitalizations of overhead costs incurred on development and acquisition activities of $490,000 was comparable to the $500,000 capitalized during the year ended September 30, 2005.

In 2006, the Corporation reached final agreement on the terms which will result in the termination of the management contract and the resulting internalization of management of the management company, Parkbridge Communities Inc. Pursuant to the terms of the termination agreement, the Corporation agreed to make a termination payment equal to two years management fees, plus adjustments, effective September 30, 2006. The management fee under the management contract was subject to a maximum amount of $4.2 million per year. The cap expires on December 31, 2006. The Corporation has expensed the full amount of the payment in its 2006 fiscal year in accordance with the recommendations of the Canadian Institute of Chartered Accountants ("CICA") Emerging Issues Committee ("EIC") Abstract #138, resulting in a one time charge to earnings of $8.4 million (including $400,000 for early termination of the contract). Concurrent with the buyout, approximately $5.5 million of shareholder loans, including accrued interest, will be repaid such that the net cash outlay to the Corporation is approximately $2.9 million.

Depreciation and amortization expense increased to $3.9 million from $2.4 million as a direct result of acquisitions made during the two recent fiscal years. Since a significant portion of the value of an acquisition is in the form of land, depreciation and amortization does not increase proportionately with real estate investments.

Stock based compensation expense decreased during the year (and the fourth quarter) as the Corporation's obligations related to compensation plans, in existence at the time of going public in December, 2004, became fully vested and all expense related thereto was recognized by July 2006.

The Corporation continues to utilize loss carry forwards available to it to offset current income taxes payable. The current tax provision includes a provision for the federal large corporation tax, which was eliminated effective December 2005, and provincial capital taxes payable primarily in Ontario. The Corporation has recognized a recovery in the current year for future taxes of $5.7 million due to recognizing the tax impact of settling all its obligations related to compensation plans referred to above. As the ultimate amount of the settlement was not determinable in prior periods, the tax benefit related to the settlement was not previously recognized.

Capital Resources and Liquidity

As at September 30, 2006 Parkbridge had cash and cash equivalents of $6.1 million on hand (includes $0.7 million of restricted cash), $54 million in bank lines of credit (of which $4.3 million was utilized in respect of letters of credit) and $2.4 million of undrawn inventory financing facilities. The bank lines are revolving in nature and used to temporarily fund operating requirements and acquisitions.

Subsequent to September 30, 2006 Parkbridge has arranged to borrow up to a further $10.6 million by arranging long term financing on one of its properties. The Corporation also assumed $4.8 million of debt related to acquisitions which were completed subsequent to the year end.

A summary of the Corporation's contractual obligations at September 30, 2006 is as follows (in $000's):

Fiscal Year	Debt Service Obligations [3]	Acquisitions	Other Purchase Obligations	Total Contractual Obligations
2007	14,743	37,580[1]	14,611[2]	66,934
2008	21,017	–	404	21,421
2009	17,995	–	324	18,319
2010	31,279	–	331	31,610
2011	27,467	–	171	27,638
Thereafter	71,250	–	–	71,250
	183,751	37,580	15,841	237,172

(1) Represents binding commitments pursuant to purchase and sale agreements.

(2) Approximately $1.8 million represents commitments to purchase manufactured homes from suppliers and $3.1 million of contractual commitments under development projects, with the balance pertaining to the obligations in respect of the termination of the management contract and other contractual obligations

(3) Includes $13.5 million of debt secured by defeasance collateral.

Parkbridge has historically generated sufficient free cash flow from its operations to satisfy its operating expenditures and capital improvement costs, and anticipates having sufficient cash resources and debt financing capacity to not only meet these obligations but also the objectives of its current business plan. The Corporation is continuing to arrange long term financing on properties which it has not financed to date and expects to generate funds from these sources in the near future.

Real Estate Assets

Real estate assets increased $91.7 million or 51% during the year ended September 30, 2006 primarily due to the acquisition of the seventeen properties discussed previously (See Growth Strategy). In addition to the acquisitions, the Corporation invested $21.7 million in expanding and improving its properties.

Inventory

The Corporation's inventory levels increased to $13.6 million at September 30, 2006 or 64% from the $8.3 million at September 30, 2005. This increase is a result of the increased development activity. The Corporation currently has 16 active expansion programs underway.

Other Assets

Other assets which include accounts receivable, prepaid expenses, deferred charges and intangible assets such as the value of acquired in-place leases and customer relationships, increased to $9.2 million from $4.1 million. The increase is largely the result of the large number of acquisitions noted above. As discussed in the Critical Accounting Policies and Estimates Section, $0.9 million of intangible assets previously included in Real Estate Assets at September 30, 2005 were reclassified at September 30, 2005 from Real Estate Assets to Other Assets.

Defeasance Collateral

As discussed under Interest Expense, the Corporation defeased $10.5 million of existing secured debt in December of 2005 and posted as security Government of Canada bonds that will be utilized to fund the payment of principal and interest on the defeased debt.

Secured Debt

The Corporation assumed or incurred $19.3 million in debt in respect of the seventeen property acquisitions it completed in the fiscal year ended September 30, 2006. In addition, the Corporation completed long term financing on nine of its properties in the fiscal year ended September 30, 2006 to raise net proceeds of $40.1 million (after deferred charges, and purchase of $12.1 million of defeasance assets). The proceeds raised were utilized to complete acquisitions and to fund the Corporation's general requirements.

Accounts Payable

Accounts payable increased to $14.6 million from $7.9 million due to the higher level of expenditures relating to the increased number of properties in the Corporation's portfolio, along with the increased level of expansion activity.

Future Income Taxes and Deferred Credit

Future income tax assets increased by $4.0 million to $8.3 million at September 30, 2006 from the $4.3 million at September 30, 2005 as a result of the recognition of the tax benefits associated with previously expensed stock based compensation

expenses. The amount of the deductions available for these expenses was not determinable until the previous Management and Contingent incentive plans were settled. The Corporation has, at September 30, 2006, $74.8 million of non-capital income tax loss carry forwards available for utilization against future taxable income. The deferred credit balance is a result of the December 2004 reorganization discussed in Business Overview and will be recognized in earnings as such losses are utilized.

Outlook

The year ending on September 30, 2006 was a year of significant growth for the Corporation and good progress was made in many areas of Parkbridge's growth plan.

Management anticipates the 2007 year to show continued growth through; (i) rent increases for the 2007 year which are expected to average 6% over the property portfolio; (ii) the expected lease up of an estimated 350 expansion sites coupled with the concurrent sale of a similar number of new homes and Resort Units: and (iii) additional revenues generated from those properties acquired part way through the 2006 year and subsequent to Parkbridge's 2006 fiscal year end. Any new properties acquired in 2007 should serve to improve near and long term results. Management can give no assurance that this growth wil be achieved.

Risks and Uncertainties

In addition to other risks and uncertainties the operation of Parkbridge's business is subject to the following risks, each of which should be carefully considered by the reader of this information.

Dependence on Key Personnel

The success of Parkbridge will be largely dependent upon the quality of its management and personnel. Loss of the services of such persons, or the inability to attract personnel of equal ability, could materially affect Parkbridge's business operations and prospects. Parkbridge has not, as yet, purchased "key man" insurance on any of its directors, officers or key employees, and has no current plans to do so.

Real Estate Industry

All real estate investments are subject to varying degrees of risk depending on the nature of the property in question. The value of Parkbridge's investments in its properties is subject to changes in general economic conditions (such as the availability and cost of mortgage funds), local conditions (such as the over supply of real estate product or a reduction in demand for sites in any particular area), attractiveness of such properties to current and potential residents, competition

from others with similar developments and the ability of Parkbridge to adequately maintain and improve its properties pursuant to its business plan at an economic cost. Parkbridge may be unable to obtain financing to maintain an appropriate capital structure. There is no certainty that financing will be available upon the maturity of any existing mortgage at interest rates equal to or lower than the interest rate payable under an expiring mortgage, or at all.

Zoning and Approvals

Future acquisitions and the development of some existing properties may require zoning and other approvals from local government agencies. The process of obtaining such approvals is increasingly difficult, and may take months or years. There can be no assurance that the necessary approvals for any particular project will be obtained. Holding costs accrue while regulatory approvals are being sought, and delays could render future acquisitions uneconomic.

Demand Risk

The value of real property and any improvements thereon may depend on the strength of the real estate market in Parkbridge's target markets. Parkbridge's projected income may be adversely affected if there was a marked increase in the current vacancy rates, or decrease in the market rental rates, for competitive sites in the target markets or if Parkbridge was unable to continue to lease a significant number of sites on economically favourable lease terms. In the event of default by a tenant, Parkbridge may experience delays in enforcing its rights as lessor and may incur costs in protecting its investment. The ability of Parkbridge to lease unleased sites will be affected by many factors. The failure of Parkbridge to lease unleased sites on a timely basis or at all would likely have an adverse effect on Parkbridge's growth expectations.

Rent Control

Parkbridge is subject to provincial legislation in certain of its markets which may restrict the ability of a landlord to increase lease amounts charged to tenants. As a result, no assurance can be given that Parkbridge will be able to adjust the lease payments charged to tenants as management would do if unaffected by such legislation. The inability to increase lease payments to reflect market conditions may have an adverse effect on Parkbridge's operating prospects.

Economic Conditions

Parkbridge's business is dependent on rental income for a substantial portion of its revenue and operating results are sensitive to prevailing economic conditions, including changes in regional and national economic conditions, particularly as they may affect rental rates in its properties. Parkbridge's operating results in individual markets could be adversely affected by local or regional economic downturns which could have a material adverse effect on the business, financial condition and operating prospects of Parkbridge.

Competition for Real Estate Investments

Parkbridge competes for suitable real estate investments with individuals, corporations and institutions (both Canadian and foreign) which are currently seeking or which may in the future seek real estate investments similar to those sought by Parkbridge. Some of these investors may have greater financial resources than those of Parkbridge. An increase in the availability of investment funds, and an increase in interest in real estate investments, would tend to increase competition for real estate investments, thereby increasing purchase prices and reducing yields therefrom. In addition, Parkbridge may require additional financing to complete future real estate acquisitions, which financing may not be available on terms acceptable to Parkbridge.

Tax Risk

As at September 30, 2006, Parkbridge had $74.8 million of non-capital losses available for utilization to reduce future taxable income. These losses are due to expire, if not utilized, at various times between 2007 and 2016. In addition the Corporation has $40.3 million of capital losses available to reduce any taxable income resulting from capital gains arising on property dispositions, should these occur. None of the foregoing losses have been audited by the income tax authorities.

Management of Growth

Parkbridge may be subject to growth-related risks including capacity constraints and pressure on internal systems and controls. The ability of Parkbridge to manage growth effectively will require it to continue to implement and improve its operational and financial systems and to expand, train and manage its employee base. The inability of Parkbridge to deal with this growth could have a material adverse effect on the business, financial condition, operations and operating prospects of Parkbridge.

Access to Capital

The ability of Parkbridge to continue to grow and to provide returns to its shareholders is partly dependent upon the Corporation's ability to access and attract capital in the equity markets. Although Parkbridge has been successful in attracting capital in the past, new taxation rules governing income trusts and corporations may have changed the dynamics of these markets. As the new rules have not even been finalized as at the date of this MD&A, Parkbridge can not assess the impact these rules will have on its future operations or organization structure.

Disclosure Controls and Procedures

Disclosure controls and procedures are designed to provide reasonable assurance that all relevant information is gathered and reported on a timely basis to senior management, including Parkbridge's Co-Chief Executive Officers and Chief Finan-

cial Officer, so that appropriate decisions can be made regarding public disclosure. As at the end of the period covered by this management discussion and analysis, management of Parkbridge, with the participation of the Co-Chief Executive Officers and the Chief Financial Officer, evaluated the effectiveness of Parkbridge's disclosure controls and procedures as required by Canadian securities laws. Based on that evaluation, the Co-Chief Executive Officers and the Chief Financial Officer have concluded that, as of the end of the period covered by this management discussion and analysis, the disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed in Parkbridge's annual filings and interim filings (as such terms are defined under Multilateral Instrument 51-109 – Certification of Disclosure in Issuers' Annual and Interim Filings) and other reports required to be filed or submitted under Canadian securities laws are recorded, processed, summarized and reported within the time periods specified by those laws, and that material information is accumulated and communicated to management of Parkbridge, including the Co-Chief Executive Officers and the Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

Internal Controls Over Financial Reporting

Internal controls over financial reporting are designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian generally accepted accounting principles. As the Corporation has been in a significant growth phase, Management is continually monitoring and revising its control procedures and processes over the different areas of its businesses. Management has identified certain areas where it can enhance process controls. These enhancements will be implemented during the course of the next 12 months. The Corporation employs additional entity level controls to compensate for any deficiencies which may exist. As at the end of the period covered by this management discussion and analysis, management of Parkbridge, with the participation of the Co-Chief Executive Officers and the Chief Financial Officer designed such internal controls over financial reporting, or caused it to be designed under their supervision, to provide resonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP.

Critical Accounting Policies and Estimates

The Corporation has disclosed its significant accounting policies in its financial statements for the year ended September 30, 2006. The reader should read this analysis along with the interim financial statements, which are incorporated herein by references.

Allocation of Property Acquisition Costs

The Corporation has invested a significant amount of capital in real estate properties by acquiring operational properties from unrelated parties. In accordance with the CICA's recommendations, the purchase price of a property must be allocated to land, building and intangible assets (such as the value of above and below market leases, the value of in-place leases, and

the value of tenant relationships, if any). At the time of recording an acquisition, Management utilizes the best information available to it in order to estimate the fair values of each of the identifiable assets acquired and allocates the acquisition costs proportionately to these assets. Management continues to refine the calculations as it obtains more and better information and accounts for any changes in the previously recorded amounts prospectively. Any changes of a material amount are disclosed in the financial statements. Although Management does not consider the amount to be material, $0.9 million in respect of the book value assigned to intangible assets previously included in Real Estate Assets at September 30, 2005, has been reclassified to Other Assets in accordance with the recommendations of the CICA. In addition, $128,000 of accumulated depreciation recorded in respect of these assets, has been reclassified from Real Estate Assets to Other Assets.

Depreciation

Management has estimated the useful life of the infrastructure of new income producing properties as having a fifty year life. The useful lives of the infrastructure of properties acquired from time to time is adjusted to reflect the age and condition of the infrastructure when acquired. Should the economic and other assumptions used in arriving at these estimates change, it could result in a significant change to the depreciation recorded in the accounts and thus could significantly impact the net income of the Corporation.

Capitalization

The Corporation capitalizes interest costs on monies borrowed to fund its development expenditures and general and administration costs associated with development and acquisition activities. The allocation of general and administrative costs is based on estimates of time spent by employees on the related activities.

Net Recoverable Amounts

Management estimates the net recoverable amounts from its properties on a quarterly basis to determine if impairment in value in any property has occurred. The net recoverable amount is estimated as being the undiscounted future cash flows expected to be received from the ongoing use of the property plus its residual value. Should the economic and other assumptions used in arriving at these estimates change a write-down in a property's value may be required, thus causing a decrease in net income. To date no such write-down has been required.

New Accounting Developments

New accounting standards have been established for the effect of contingent convertible instruments on the computation of diluted earnings per share and new accounting developments are anticipated regarding the accounting for business combinations. The standards for contingent convertible instruments would have no impact on the Corporation's financial disclosure. The proposed standards regarding business combinations may result in the Corporation's earnings during periods of

acquisitions being reduced as the proposed accounting standards would require the expensing of acquisition costs (such as legal costs) in connection with a business combination in the period in which they are incurred. Those costs are currently allocated to the cost of the assets acquired under a business combination and then amortized along with the other costs of the acquired asset, if so amortized.

Effective October 1, 2006 the Corporation must comply with the new CICA standards regarding financial instruments, comprehensive income and hedges. The Corporation has not identified any embedded derivatives in its contracts and has only identified one hedging relationship which should be settled by May of 2007. In addition the Corporation has determined that it will include transaction costs in the initial carrying amount of its financial instruments. Changes resulting from adoption of the effective interest method should not be significant to the financial statements of future periods.

Outstanding Share Data

As of December 7, 2006, the Corporation had 24,573,012 common shares and 36,732,934 non-voting shares issued and outstanding. As of the same date, the Corporation had outstanding options, including performance options, that if exercised, would result in the further issuance of 5,986,668 non-voting shares. The stock options are all subject to certain vesting requirements as explained in Note 13 of the financial statements as at September 30, 2006.

Selected Consolidated Financial Information

The following selected financial information should be read in conjunction with "Management's Discussion and Analysis", the consolidated financial statements of the Corporation and accompanying notes for the years ended September 30, 2006 and 2005 and the nine months ended September 30, 2004, all of which are incorporated herein by reference. The Corporation has paid no dividends to any of its security holders during any of the periods disclosed below.

ANNUAL INFORMATION *($000's)*

	Total Revenue	FFO	Net Income (Loss)	Total Assets	Secured Debt	Net Income (loss) per share	
						Basic	Diluted
Year ended September 30, 2006	69,863	14,311	4,662 (1)(2)	315,204	143,485	0.09	0.09
Year ended September 30, 2005	41,976	10,430	3,401	194,221	71,195	0.08	0.07
Twelve Months ended September 30, 2004 (Unaudited)	28,895	7,102	(1,517)	115,510	53,419	(0.04)	(0.04)
Nine Months ended September 30, 2004	22,031	5,591	(962)	115,510	53,419	(0.03)	(0.03)

QUARTERLY COMPARATIVE *($000's except per share amounts)*

(Unaudited) Three Month Period Ended:	Total Revenue	FFO	Net Income (Loss)	FFO Per Share Basic	FFO Per Share Diluted	Net Income (Loss) Per Share Basic	Net Income (Loss) Per Share Diluted
September 30, 2006	24,743	5,112	2,575[2]	0.09	0.09	0.05[2]	0.04[2]
June 30, 2006	23,403	4,266	2,288	0.08	0.08	0.04	0.03
March 31, 2006	11,767	2,225	561	0.04	0.04	0.01	0.01
December 31, 2005	9,950	2,708	(762)[1]	0.06	0.05	(0.02)[1]	(0.02)[1]
September 30, 2005	13,548	2,714	1,165	0.06	0.05	0.03	0.02
June 30, 2005	14,948	4,461	2,249	0.09	0.08	0.05	0.04
March 31, 2005	6,308	1,742	(68)	0.04	0.03	0.00	0.00
December 31, 2004	7,172	1,513	55	0.04	0.03	0.00	0.00

(1) Amount for the period includes a one-time $2.1 million loan defeasance loss.

(2) Amount for the period include $8.4 million of internalization costs and $5.7 million tax recovery in respect of the settlement of employee compensation obligations.

Historical results reflect the growth of the Corporation over the last 2 years and illustrate the seasonality of a component of its operations. Resort operations are seasonal in nature with large portions of income earned in the third and fourth quarters of each fiscal year. Home sales activity has historically been strongest in the fourth quarter of each fiscal year of the Corporation and slower during the winter months. These factors contribute to quarterly fluctuations in results.

Forward Looking Statements

This discussion contains forward-looking statements within the meaning of the U.S. Private Securities Litigation Reform Act of 1995. The forward-looking statements are statements that involve risks and uncertainties, including, but not limited to, changes in demand for home and recreational site rentals, the effects of economic conditions, the impact of competition and competitive pricing, the effects of Parkbridge's accounting policies and other matters detailed in Parkbridge's filings with Canadian securities regulators available in SEDAR in Canada and by request through the Securities and Exchange Commission in the United States. Because of these risks and uncertainties, the results, expectations, achievements, or performance described in this report may be different from those currently anticipated by Parkbridge.

Sincerely,

PARKBRIDGE LIFESTYLE COMMUNITIES INC.

Glenn F. McCowan, C.A.
Vice President, Finance and Chief Financial Officer

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying consolidated financial statements of Parkbridge Lifestyle Communities Inc. have been prepared by management and approved by the Board of Directors of the Corporation. Management is responsible for the information and representations contained in these financial statements and other sections of this Annual Report. The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles.

To assist management in discharging these responsibilities, the Company maintains a system of internal controls that is designed to provide management with reasonable assurance regarding the reliability of financial reporting.

The Board of Directors ensures that management fulfills its responsibilities for financial reporting and internal control through an Audit Committee composed of independent directors. The Committee meets with the independent auditors (who have direct access to the Audit Committee, independent of management) and with management to satisfy itself that each group is properly discharging its responsibilities and to review the consolidated financial statements and management's discussion and analysis. The Audit Committee reports its findings to the Board for consideration in approving the consolidated financial statements for issuance to the shareholders.

The Company's independent auditors, Deloitte & Touche LLP, have been appointed by the shareholders to express their professional opinion on the fairness of the consolidated financial statements. Their report is included below.

David Rozycki
President, Eastern Operations and Co-Executive Officer

Iain Stewart
President, Western Operations and Co-Chief Executive Officer

Glenn F. McCowan
Chief Financial Officer

December 7, 2006

AUDITORS' REPORT TO THE SHAREHOLDERS OF PARKBRIDGE LIFESTYLE COMMUNITIES INC.

We have audited the consolidated balance sheets of Parkbridge Lifestyle Communities Inc. as at September 30, 2006 and 2005 and the consolidated statements of income, retained earnings, and cash flow for the year ended September 30, 2006 and 2005. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at September 30, 2006 and 2005 and the results of its operations and its cash flows for the year ended September 30, 2006 and 2005 in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants
Calgary, Canada

December 7, 2006

CONSOLIDATED BALANCE SHEETS

September 30, 2006

($000's)	2006	2005
ASSETS		
Real estate (Note 5)	**265,905**	174,246
Cash, cash equivalents and restricted cash (Note 20)	**6,069**	3,326
Inventory (Note 6)	**13,593**	8,277
Other assets (Note 7)	**9,237**	4,083
Defeasance collateral (Note 9)	**12,122**	–
Future income tax asset (Note 8)	**8,278**	4,289
	315,204	194,221
LIABILITIES		
Secured debt (Note 11)	**143,485**	71,195
Bank indebtedness (Note 10)	–	5,783
Accounts payable (Note 12)	**14,449**	7,872
Internalization liability (Note 16 and 17)	**8,400**	–
Tenant security deposits and prepaid rents	**4,342**	2,852
Deferred credit (Note 8)	**15,069**	15,527
	185,745	103,229
SHAREHOLDERS' EQUITY		
Capital stock (Note 13)	**119,708**	75,465
Contributed surplus (Note 15)	**1,688**	12,126
Retained earnings	**8,063**	3,401
	129,459	90,992
	315,204	194,221

Commitment and contingencies (Note 17)

APPROVED BY BOARD OF DIRECTORS

David Richards   **Joseph Killi**

CONSOLIDATED STATEMENTS OF INCOME AND RETAINED EARNINGS

($000's)	Year ended September 30 2006	Year ended September 30 2005
PROPERTY OPERATIONS		
Rental and other property revenues	**39,327**	25,289
Property operating expenses and taxes	**(19,877)**	(11,441)
Brokerage and resale income	**1,147**	370
Income from property operations	**20,597**	14,218
HOME SALES OPERATIONS		
Home sales revenue	**29,389**	16,317
Cost of home sales	**(24,918)**	(12,962)
Operating expenses	**(980)**	(896)
Income from home sales operations	**3,491**	2,459
INCOME FROM OPERATIONS BEFORE THE UNDERNOTED	**24,088**	16,677
OTHER EXPENSES		
Interest expense	**6,878**	3,854
Interest income	**(409)**	(168)
Asset management expenses (Note 16)	**2,774**	1,940
Depreciation and amortization	**3,948**	2,436
Stock-based compensation (Notes 13, 14 and 15)	**2,310**	4,013
Defeasance loss (Note 9)	**2,097**	–
Internalization costs (Note 17)	**8,400**	–
	25,998	12,075
INCOME (LOSS) BEFORE INCOME TAXES	**(1,910)**	4,602
PROVISION FOR RECOVERY OF INCOME TAXES		
Current	**534**	563
Future (Note 8)	**(7,106)**	2,926
Deferred credit (Note 8)	**–**	(2,288)
	(6,572)	1,201
NET INCOME	**4,662**	3,401
RETAINED EARNINGS, BEGINNING OF YEAR	**3,401**	–
RETAINED EARNINGS, END OF YEAR	**8,063**	3,401
Income per share		
Basic	**0.09**	0.08
Diluted	**0.09**	0.07

CONSOLIDATED STATEMENTS OF CASH FLOW

($000's)	Year ended September 30 2006	Year ended September 30 2005
CASH FLOWS RELATED TO THE FOLLOWING ACTIVITIES:		
OPERATING		
Net income for the year	**4,662**	3,401
Adjustments for:		
Depreciation and amortization	**3,948**	2,378
Stock-based compensation	**2,310**	4,013
Defeasance loss	**2,097**	–
Future income taxes	**(7,106)**	2,926
Deferred Credit	–	(2,288)
	5,911	10,430
Inventory purchases	**(3,937)**	(1,532)
Internalization costs	**8,400**	-
Non-cash financing items	**(232)**	58
Net change in non-cash operating balances	**4,024**	2,550
	13,766	11,506
FINANCING		
Issue of capital stock for cash, net of issue costs	**29,801**	38,052
Loans from partners (Note 16)	–	13,675
Loans repaid to partners (Note 16)	–	(13,675)
Distributions to partners (Note 13)	–	(2,519)
Financing proceeds	**53,450**	29,267
Purchase of defeasance collateral	**(12,122)**	–
Deferred charges	**(1,341)**	(45)
Repayment of debt on real estate	**(2,904)**	(15,604)
Net change in bank indebtedness	**(5,783)**	2,517
	61,101	51,668
INVESTING		
Real estate acquisitions and deposits, net of debt assumed (Note 4)	**(50,400)**	(46,322)
Improvement and development of real estate	**(21,724)**	(13,526)
Increase in restricted cash	**(151)**	(85)
	(72,275)	(59,933)
NET INCREASE IN CASH AND CASH EQUIVALENTS	**2,592**	3,241
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR (Note 20)	**2,780**	(461)
CASH AND CASH EQUIVALENTS, END OF YEAR (Note 20)	**5,372**	2,780
SUPPLEMENTARY INFORMATION		
Interest paid	**7,153**	3,851
Income and capital taxes paid	**422**	148

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year Ended September 30, 2006 and 2005

1. Description of the Business and Organization of Parkbridge Lifestyle Communities Inc. (formerly B-For-G Capital Inc.)

Description of the Business

On December 23, 2004, B-For-G Capital Inc. ("B-For-G") changed its name to Parkbridge Lifestyle Communities Inc. ("Parkbridge" or the "Corporation") following the completion of a number of transactions including (i) entering into an option agreement to acquire all of the units of the Parkbridge 2003 Limited Partnership (the "Partnership") (ii) issuing shares pursuant to a $5 million subscription agreement to entities controlled by members of the senior management of the Partnership which resulted in these entities owning 36% of the common shares and 59% of the non-voting shares of B-For-G (iii) a $42 million private placement to new investors and (iv) the acquisition of all of the units of the Partnership for cash and shares pursuant to the option agreement. Prior to the completion of these transactions, B-For-G had disposed of substantially all of its assets and had satisfied its remaining obligations with the issuance of shares pursuant to a Plan of Arrangement that became effective on October 14, 2004. The year end of B-For-G was September 30.

In accordance with Canadian generally accepted accounting principles, the purchase method of accounting could not be applied to the transactions noted above as the continuing entity

was considered to be the Partnership with it having acquired B-For-G Capital Inc. on December 23, 2004. Consequently, the financial statements at September 30, 2005 reflect the assets and liabilities of the Partnership on the basis of historical costs and its operations for the twelve month period commencing on October 1, 2004 and ending on September 30, 2005 combined with the operations of B-For-G since the date of acquisition. The year end of Parkbridge was previously December 31.

Parkbridge is in the business of acquiring, developing, owning and operating comprehensive residential ("Communities") and recreational ("Resorts") land lease properties. Parkbridge is focused on opportunities in Canada and as at September 30, 2006 owned a portfolio of 53 Communities and Resorts containing approximately 11,275 developed sites and with capacity to add more than 3,400 expansion sites.

The Community and Resort properties are owned by the Corporation and individual sites are leased to a resident upon which the resident locates a residential or recreational dwelling. Recreational dwellings include resort cottages, cabins and recreational vehicles, (collectively referred to as "Resort Units"). The Corporation has engaged the services of Parkbridge Communities Inc. (the "Manager") to provide all management services to the Corporation, including property management, asset management, acquisitions, dispositions, finance, development and all head office functions. The services of the Manager have been terminated effective at the end of the Corporation's fiscal 2006 year and all future management services will be provided internally by employees of the Corporation (see Note 17).

2. Significant Accounting Policies

Basis of Presentation

In the opinion of management, these consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles ("GAAP") and include only the assets, liabilities, income and expenses relating to the operations of the Partnership and those of the Corporation since December 23, 2004. As B-For-G's year end was September 30, the Corporation has adopted that as its year end as opposed to December 31 which was the year end of the Partnership. Due to the seasonality of some of the properties acquired and the timing of the acquisitions during the years ended September 30, 2006 and 2005, the operating results for the years ended September 30, 2006 and 2005 are not necessarily indicative of the results that may be expected for the next fiscal year.

All inter-company accounts and transactions have been eliminated on consolidation.

Cash and Cash Equivalents

Parkbridge considers highly liquid investments with an original maturity of three months or less to be cash equivalents. Included in cash and cash equivalents at September 30, 2006 is an amount of $696,762 (September 30, 2005 - $545,986) of restricted cash, representing funds on deposit from tenants for security deposits.

Inventory

Inventory, consisting of new and pre-owned homes and Resort Units, is recorded at the lower of cost and net recoverable value, which represents the undiscounted estimated future cash flows expected to be generated from the sale of the inventory.

Real Estate

Income producing properties

The purchase price is allocated to land, buildings and intangible assets (such as the value of above and below market leases, the value of in-place leases, origination costs associated with in-place leases and the value of tenant relationships, if any) based on the prorata fair values of the respective assets. The value of above and below market leases and origination costs associated with in-place leases are recorded and amortized to rental income over the remaining term of the associated lease. The value associated with the tenant relationships is amortized over the expected term of the relationship, which includes an estimate of the probability of the lease renewal and its estimated term.

Parkbridge also capitalizes direct costs and general and administrative costs associated with the acquisition of properties as a cost of the asset acquired.

Parkbridge utilizes the straight-line method for amortization of its infrastructure assets over its estimated life, ranging from 25 to 50 years.

Income producing properties are recorded at the lower of cost less accumulated depreciation and the net recoverable amount. Significant renovations and improvements that extend the useful life of an asset are capitalized and depreciated over the remaining useful life. The net recoverable amount represents the undiscounted estimated future cash flows expected to be received from the ongoing use of the property plus its residual value.

Land under development and land held for development

Land under development and land held for development are carried at the lower of cost and net recoverable value. Costs include all amounts relating to the acquisition and improvement of the properties. Parkbridge also capitalizes direct and indirect costs to each property development project until commercial operation has been attained. Indirect costs include marketing and sales, employee salaries directly attributed to the development project, insurance, interest expense and other costs directly attributed to the project. General and administrative costs are allocated to acquisitions and development projects based on estimates of time spent by employees on the related activities. Upon completion of the development, the costs are reclassified to income producing properties and depreciated over the remaining useful life as discussed above.

No indirect costs are capitalized to land held for development.

Revenue Recognition

Rental of home sites

Parkbridge generates income from the rental of Community and Resort sites. Revenue from the rental of sites is recognized when a tenant commences occupancy of a lot and rent, which is payable monthly, is earned under the lease. Rents received

in advance are deferred. Parkbridge retains all of the benefits and risks of ownership of its rental properties and therefore, accounts for its leases with its tenants as operating leases.

Sale of homes

Parkbridge generates income from the sale of new homes and Resort Units, pre-owned homes situated on home sites owned by Parkbridge and re-sale of pre-owned Resort Units. Home sales are recognized when the title to the completed housing unit or Resort Unit is transferred to the purchaser and full payment is received.

Deferred Financing Costs

Deferred financing costs, which are included in other assets, are recorded at cost, net of accumulated amortization. Amortization is provided using the straight-line method over the term of the related debt.

Income Taxes

Income taxes are accounted for using the liability method. Under this method, future income taxes of the Corporation are recognized for the expected future tax consequences of the differences between the carrying amount of balance sheet items and their corresponding tax values. Future income taxes are computed using substantively enacted corporate income tax rates for the years in which differences in tax and accounting basis are expected to reverse.

Stock-based Compensation

The Partnership had unit-based compensation plans that have been converted to stock-based plans, which are described in Note 14. Further the Corporation has granted stock options to directors, officers, employees and consultants of the Corporation and the Manager,

The Corporation follows the recommendations of CICA Handbook Section 3870 with respect to the recognition, measurement and disclosure of equity based awards. Section 3870 requires equity based awards to be measured and recognized based on the fair value of the equity instruments. Fair value is measured on the grant date using the Black Scholes pricing model, except for stock appreciation rights ("SARs") and similar awards to be settled in cash or other assets, where fair value is measured as the amount by which the quoted market price exceeds the exercise price and is measured on an ongoing basis on each measurement date.

It was the Partnership's policy, when the unit-based compensation plans allow for settlement in cash or equity at the general partner's discretion, to settle the awards in equity rather than cash.

The Partnership granted direct awards of Partnership units and also participation rights relative to increases in the fair market value of the Partnership net asset value, to be settled in Partnership units, as described in Note 14. For direct awards of Partnership units where the number of Partnership units expected to be issued on settlement can be estimated by management, the Partnership has measured the fair value of the award at the grant date. For those participation rights where the number of Partnership units to be settled or issued could not be estimated, the Partnership measured the fair value of the awards annually, based on the increase in net asset value and the value of the Partnership units at each reporting date. As part of the acquisition of the Partnership Units, the Corporation agreed to fix the value of the plans as described in Note 14. Compensation expense is recognized over the vesting period of the related award.

Parkbridge will account for actual forfeitures as they occur.

Use of estimates

The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions which affect the reported amounts of assets and liabilities at the date of the financial statements and revenue and expenses for the period reported. Estimates include the estimated useful lives of assets which impact the depreciation and amortization of Real Estate and Other Assets. Additional estimates impact the measurement of the amount of interest and administrative overhead capitalized, stock based compensation and future income taxes. Actual results could differ from those estimates.

3. Parkbridge 2003 Limited Partnership and B-For-G Capital Inc.

On December 23, 2004 the Corporation acquired all of the issued and outstanding units of the Parkbridge 2003 Limited Partnership. The acquisition was completed by making a cash payment of $1,000,000 and issuing 8,100,465 common shares and 25,790,021 non-voting shares (on a post consolidated share basis – see Note 13) at a deemed aggregate value of $103,349,164. Parkbridge Lifestyle Communities Inc. is considered to be a continuation of the Partnership following the continuity of interest accounting method under GAAP. The carrying values of the net assets are the carrying values of the Partnership at the date of the transaction plus the fair value of the B-For-G net assets, which had a fair value of $5,000,000. The future income tax liability of the Partnership is also adjusted to reflect the change to having the taxable income of the Partnership's directly owned assets tax effected within the organization versus taxed in the hands of its partners outside the organization. This results in an increase in the future income tax liability of the Partnership of $3,152,000 and is charged to the opening Partners' capital, and thus share capital, at the date of the transaction. The cash portion of the price paid for the units is reflected as a distribution to the partners and thus a reduction in the Partners' capital. See Note 13.

4. Property Acquisitions

During the twelve months ended September 30, 2006, Parkbridge acquired seventeen properties (twelve months ended September 30, 2005 – fifteen properties).

($000's)	Year Ended September 30, 2006	Year Ended September 30, 2005
Number of sites acquired	3,158	2,337
Assets purchased, net of future income taxes		
Real estate	70,028	48,905
In place leases and customer relationships	2,037	991
Working capital (deficiency)	(958)	221
	71,107	50,117
Consideration		
Cash paid for real estate assets, net of working capital	50,811	38,292
Financing assumed	15,851	–
Equity issued	1,000	–
New financing	3,445	11,825
	71,107	50,117

5. Real Estate

($000's)	As at September 30, 2006	As at September 30, 2005
Income producing properties		
Land	95,258	53,325
Infrastructure	153,288	107,500
Less: accumulated depreciation	(9,452)	(5,794)
	239,094	155,031
Land under development	19,628	14,066
Land held for development	7,183	5,149
	265,905	174,246

During the year ended September 30, 2006, Parkbridge capitalized indirect costs of $1,192,000 (year ended September 30, 2005 - $1,400,000). Included in this amount is $612,000 of interest costs capitalized during the year ended September 30, 2006 incurred in funding development expenditures (year ended September 30, 2005 - $259,000 and $580,000 of general and administrative expenditures and other acquisition costs (year ended September 30, 2005 - $1,141,000).

Income producing properties consists of land and related infrastructure pertaining to Communities and Resorts. The infrastructure consists of long-term assets such as sanitary sewer and storm water collection systems, potable water supply systems, roads, walkways and amenities including clubhouses, pools and marinas. The allocation of costs for acquired properties may not be final as at the date of the financial statements. Management allocates acquisition costs to land, infrastructure and other identifiable assets based upon the best information available to it at the time of preparing the financial statements. Any adjustments to these allocations will be reflected in the financial statement prospectively in the future. Any material adjustments will be reported in subsequent financial statements.

6. Inventory

Inventory includes manufactured homes and Resort Units held for sale in amounts as follows:

($000's)	September 30, 2006	September 30, 2005
New homes and Resort Units	11,299	6,694
Pre-owned homes and Resort Units	1,321	633
Marina inventory	887	929
Other inventory	86	21
	13,593	8,277

7. Other Assets

($000's)	September 30, 2006	September 30, 2005
Note receivable from related party (see Note 16)	250	250
Accounts receivable	3,488	2,063
Total receivables	3,738	2,313
In place leases, net	33	133
Customer relationships, net	2,777	730
Prepaid expenses	1,191	540
Deferred charges	1,498	367
	9,237	4,083

The carrying value of in place leases are net of accumulated amortization of $246,000 at September 30, 2006 ($31,000 at September 30, 2005). The carrying value of the customer relationships are net of accumulated amortization of $43,000 at September 30, 2006 ($6,000 at September 30, 2005). The carrying amounts of both of these asset categories have been reclassified from Real Estate assets at September 30, 2005.

8. Income Taxes

Future income tax asset (liability) results from timing differences related to the following items:

($000's)	September 30, 2006	September 30, 2005
Real estate assets	(17,773)	(18,537)
Loss carry forwards	24,828	21,729
Other	1,223	1,097
Future income tax asset	8,278	4,289
Deferred credit	15,069	15,527

During the year ended September 30, 2006, the Corporation's income for taxation purposes was a loss of $20.2 million. This was the result of deducting in the current year stock compensation expenses related to the old incentive compensation plans (see Note 14). The extent and timing of the deductions of these expenses for income tax purposes was not determin-

able in prior years thus no tax benefit was recognized previously. At September 30, 2006, the Corporation has available $71.8 million of non-capital income tax losses available for utilization against future taxable income. These losses will expire between the years 2007 and 2016, if not utilized.

The Corporation also has $40,298,000 of capital losses available for deduction against future capital gains. As the Corporation has no plans at this time for disposing of any of its properties, a valuation allowance has been provided on the tax benefit related to these losses of $7.1 million.

The deferred credit arose due to the recognition of the future income tax asset of B-For-G upon the reorganization discussed in Notes 1 and 3. The total future tax asset, net of the income of the Partnership for the year ended September 30, 2004 reported by B-For-G for income tax purposes in fiscal 2005, recognized was $22,646,630 but only had an estimated fair value at the date of acquisition of $4,961,000 resulting in an initial deferred credit of $17,685,630. During the year ended September 30, 2006 the deferred credit was reduced by $458,000 due to the payment of income tax as assessed for the years prior to the B-For-G transaction. The deferred credit was reduced in 2005 by the tax benefit of the losses utilized during that year.

The Corporation's actual income tax expense differs from the expected income taxes based upon an effective tax rate of 35.1% as follows:

($000's)	Year Ended September 30, 2006	Year Ended September 30, 2005
Expected income tax (recovery) expense	(530)	1,630
Impact of:		
Stock based compensation	811	1,403
Settlement of Management and Contingent Incentive Plans	(8,564)	–
Non-deductible portion of internalization costs	1,414	–
Recognition of benefit of loss carry forwards not previously recognized	–	(2,288)
Large corporation and provincial capital taxes	297	456
Actual income tax expense (recovery)	(6,572)	1,201

9. Defeasance Collateral

In December of 2005, the Corporation agreed to refinance one of its properties. The existing mortgage on the property had an outstanding balance of $10.5 million and a fixed interest rate of 7.9% at the time of refinancing. The mortgage was defeased in substance through the purchase of substitute security consisting of Government of Canada bonds at a cost of $12.5 million. The interest on these bonds together with principal redemptions is sufficient to fund the remaining payments required under the defeased mortgage. The property was concurrently refinanced with a $22.5 million mortgage which bears interest at a rate of 5.33% fixed for a term of ten years. The cost of defeasing the old mortgage and related fees was expensed in the Corporation's first quarter of fiscal 2006 resulting in a one-time charge against earnings of approximately $2.1 million. As a result of the transaction, the Corporation generated net proceeds of $10.0 million and will save approximately $0.3 million per annum in interest costs over each of the next five years. The amount of the defeasance collateral at September 30, 2006 equals the amount of the defeased mortgage plus the unamortized defeasance premium at the same date.

10. Bank Facilities

The Corporation has an operating facility (the "Operating Facility") of $24 million and an acquisition facility (the "Acquisition Facility") of $30 million. The facilities are both revolving in nature. The Operating Facility is secured by first mortgages on three properties and a second mortgage on an additional property. The Acquisition Facility is secured by first

mortgages on properties acquired and funded under the facility. Standby fees of 0.2% per annum are payable on undrawn amounts under the facilities and interest based on the bank's prime rate is payable on any funded balances. The facilities also require the Corporation meet certain financial covenants. Amounts drawn under these facilities, totaled $Nil as at September 30, 2006 ($5.8 million at September 30, 2005).

As at September 30, 2006, the Corporation had outstanding letters of credit in the amount of $4.3 million ($1.5 million at September 30, 2005) which further reduced the availability under its facilities. The letters of credit are issued as security for performance of certain development projects.

11. Secured Debt

($000's)	September 30, 2006	September 30, 2005
Mortgages payable amortized over 15 - 18 years with interest being charged at the varying spreads above prime (Weighted average interest rate at September 30, 2006 – 8.43%; September 30, 2005 – 6.89%)	846	1,026
Mortgages payable, including defeased mortgage and unamortized defeasance premium, amortized over nil to 25 years at fixed interest rates varying from 4.5% to 7.9%, weighted average of 5.9% (September 30, 2005 – 4.5% to 7.9%, weighted average of 6.1%)	131,894	67,200
Local improvement bonds amortized over 10 to 17 years at fixed interest rates varying from 5.4% to 6.0% (September 30, 2005 – 5.4% to 6.0%)	1,066	1,138
Municipal improvement obligations assessed as a special levy repayable over 40 years with interest and specific repayment terms yet to be fixed	7,000	–
Inventory financing	2,601	1,792
Equipment and other loans	78	39
	143,485	71,195

The fair value of long-term debt is $143,595,000 as at September 30, 2006 ($73,689,000 – September 30, 2005). Debt is secured by assignments and charges of land, infrastructure and leases. Certain mortgages do not require amortization of principal (September 30, 2006 - $19,289,000; September 30, 2005 - $14,096,000).

Inventory financing is secured by homes held in inventory. Interest is charged at prime plus 1%, and all amounts outstanding are due as related inventory is sold.

Principal payments on secured debt due within each of the next five fiscal periods ending September 30 are:

($000's)	Regular	Defeased debt	Total
2007	6,984	575	7,559
2008	13,980	607	14,587
2009	11,714	639	12,353
2010	26,304	638	26,942
2011	15,424	9,627	25,051
Thereafter	56,993	–	56,993
	131,399	12,086	143,485

12. Accounts Payable

($000's)	September 30, 2006	September 30, 2005
Accounts payable	11,878	6,587
Customer sales deposits	1,763	477
Other accounts payable (see below)	808	808
	14,449	7,872

In 2003, the Partnership acquired an 87% interest in Canadian Rocky Mountain Properties Inc. ("CRMP"), whose principal asset is the Evergreen Community in Edmonton, Alberta, a property containing 696 homes. Subject to a plan of arrangement (the "Plan") initiated on December 29, 2003 and approved on January 30, 2004, Parkbridge acquired the remaining 13% interest in CRMP. A shareholder owning less than 10% of the shares of CRMP exercised rights, granted under the Plan, to determine if a higher value should be paid for their shares. This action is currently subject to court proceedings. As at September 30, 2006 - $808,000 (September 30, 2005 - $808,000) has been recorded as a liability in accounts payable to cover potential settlement and related costs and 100% of the assets and liabilities of Canadian Rocky Mountain Properties Inc. have been recorded.

13. Capital Stock

(a) Change in Authorized Capital and Reduction of Stated Capital

At the annual and special meeting of shareholders held on December 20, 2004, the Shareholders agreed to amend the articles of the Corporation resulting in a change to the rights, privileges, restrictions and conditions attaching to the common shares and Class A preferred shares including changing the designation of the Class A preferred shares to non-voting shares. As a result of the amendment, the Corporation is now authorized to issue an unlimited number of common shares, non-voting shares, and preferred shares. The rights attached to the non-voting shares provide for equal participation in the equity of the Corporation with the common shares except that the non-voting shares will not be allowed to vote at any meeting of the shareholders unless specifically permitted by law.

(b) Issued and Outstanding

	Number of Units	Amount *($000's)*
Parkbridge 2003 Limited Partnership Partners' Capital		
Balance, September 30, 2004	669,681	36,866
Adjustment to opening balance	–	48
	669,681	36,914
Capital distribution	–	(1,518)
	669,681	35,396
Recognition of future income taxes of partnership	–	(3,152)
Cash distribution on exchange of shares for units	–	(1,000)
Balance at date of exchange of shares for units	669,681	31,244

	Number of Shares	Amount *($000's)*
COMMON SHARES (see Note 1)		
Issued for net assets of B-For-G (see (c) below)	826,643	2,496
Issued in exchange for Parkbridge units (see (f) below)	8,100,465	7,468
Issued for loan on private placement (see (d) below)	474,000	1,432
Issued for cash on private placement (see (e) below), net of issue costs	12,727,312	39,221
Subtotal – issued at September 30, 2005	22,128,420	50,617
Issued for cash by private placement, net of share issue costs (see (e) below)	1,935,500	9,563
Issued for cash on exercise of broker warrants (see (h) below)	509,092	1,815
Issued and outstanding, September 30, 2006	24,573,012	61,995
Deduct: share purchase loans outstanding	(474,000)	(1,432)
COMMON SHARE BALANCE, SEPTEMBER 30, 2006	24,099,012	60,563

	Number of Shares	Amount ($000's)
NON-VOTING SHARES		
Issued for net assets of B-For-G (see (c) below)	829,012	2,504
Issued in exchange for Parkbridge units (see (f) below)	25,790,021	23,776
Issued for loan on private placement (see (d) below)	1,181,631	3,568
Subtotal – issued at September 30, 2005	27,800,664	29,848
Issued for cash by private placement, net of share issue costs (see (e) below)	3,871,000	19,125
Issued for cash on exercise of stock options (see (h) below)	48,332	163
Issued satisfaction of Contingent Incentive Plan (see (i) below)	1,690,790	3,032
Issued in exchange for property (see (j) below)	200,000	1,000
Issued in satisfaction of Management Incentive Plan (see (k) below)	3,160,480	9,545
Issued and outstanding, September 30, 2006	36,771,266	62,713
Deduct: Share purchase loans outstanding	(1,181,631)	(3,568)
NON-VOTING SHARE BALANCE, SEPTEMBER 30, 2006	35,589,635	59,145
CAPITAL STOCK BALANCE, SEPTEMBER 30, 2006		119,708

(c) B-For-G Shares

In connection with completion of the plan of arrangement completed on October 14, 2004, and the amendments which were approved by the shareholders at the meeting held on December 20, 2004, the Corporation completed the financing arrangements with Network Capital Inc. ("Network"). As a result of those amendments the Corporation issued common and non-voting shares at a price of $1.35 per share (post consolidation) on the private placement financing with Network and on conversion of its outstanding debentures. The Corporation also issued to Network, as payment of fees related to the reorganization, 55,000 common shares at a deemed price of $1.94 per share (post consolidation). As this transaction was completed prior to the Partnership transaction, it is reflected in the fair value of the net assets acquired from B-For-G by the Partnership. The following table reconciles the share capital of B-For-G from September 30, 2004 to the date of the Parkbridge Acquisition.

	Common Shares		Non-Voting Shares	
	Number of Shares	Amount ($000's)	Number of Shares	Amount ($000's)
Balance, September 30, 2004	50,164,149	99,877	–	–
1 for 3 consolidation	(33,442,766)	–	–	–
	16,721,383	99,877	–	–
Reduction of stated capital	–	(98,290)	–	–
	16,721,383	1,587	–	–
Issue of share capital for fees, cash and conversion of debenture	10,833,334	554	27,633,717	1,278
	27,554,717	2,141	27,633,717	1,278
1 for 33 1/3 consolidation	(26,728,074)	–	(26,804,705)	–
Balance before Parkbridge Acquisition	826,643	2,141	829,012	1,278

(d) Share Subscription

In order to secure the option to acquire the Partnership and provide for initial liquidity, B-for-G agreed to complete a private placement of $5,000,000 of common and non-voting shares at a price of $3.02 per share (post-consolidation) in 2005. The private placement was completed with three corporations which were controlled by three members of the Partnership's management and the Partnership loaned the funds to the corporations subscribing for the shares. The loans incur interest at the rate of 4.5% per annum and are secured by the shares purchased therewith. Any dividends paid on the shares will be applied against interest and principal until the loans are repaid. The balance plus accrued interest is repayable when the payment for the termination of the management contract is made (see Note 16). Stock based compensation expense of $293,000 was recorded during the year ended September 30, 2006 ($163,000 – year ended September 30, 2005) based upon a Black Scholes model.

The assumptions utilized by management in the Black Scholes model valuation for determining the compensation expense related to the options is a risk free interest rate of 3.5%, an expected volatility rate of 17%, an expected annual dividend rate of 3% and an expected life of 3 years.

(e) Private Placements

In June of 2006 the Corporation completed a private placement of 1,935,500 units at a price of $15.50 per unit for gross proceeds of $30 million. Each unit was comprised of one common share and two non-voting shares. In addition to the payment of associated expenses, the Corporation paid an agency placement fee of 6% resulting in total cash share issue costs being incurred of $2.0 million.

In 2005, the Corporation entered into an agency agreement to complete a private placement of common shares in order to ensure the Corporation has sufficient capital available to carry out its future plans commencing with the acquisition of the Partnership. As a result, the Corporation issued 12,727,313 common shares at a price of $3.30 (on a post-consolidation basis) for gross proceeds of approximately $42.0 million. In addition to the payment of associated expenses, the Corporation paid commissions to an underwriter which included an agency placement fee of 6% of the gross proceeds as well as 509,092 broker warrants. Included in the share issue costs is $135,451 representing the imputed cost associated with the issuance of the warrants together with a corresponding increase to contributed surplus. Each broker warrant entitled the holder to purchase one common share at an exercise price of $3.30 per common share until September 30, 2006. All of the warrants were exercised prior to September 30, 2006.

(f) Parkbridge Acquisition

As discussed in Note 3, the Corporation issued 8,100,465 common and 25,790,021 non-voting shares at an agreed value of $3.02 per share (post-consolidation) to acquire 100% of the units of the Partnership. As the Partnership is considered the continuing entity, the old Partnership capital is allocated amongst the series of shares based upon the relative number of shares issued in exchange for the Partnership units since both series participate equally in the capital of the Corporation.

(g) Rights Plan

In August of 2005 the Corporation, having received approval from the majority of the common shareholders, who did not also hold non-voting shares, implemented the adoption of a rights plan (the "Plan"). With respect to the Plan, upon the occurrence of certain triggering events (including the acquisition by a person or group of 20% or more of the outstanding common shares of the Corporation or 20% or more of the outstanding non-voting shares of The Corporation), the rights effectively entitle holders of common shares and holders of non-voting shares (other than the acquiring person or group) to acquire common shares or non-voting shares, respectively at half of the market price. The rights are not triggered by purchases of common shares or non-voting shares made pursuant to a permitted bid, which is defined as a take-over bid made to all holders of common shares and all holders of non-voting shares for identical consideration per share which is conditional on not less than 50% of the total common shares and non-voting shares (other than those owned by the acquiring person or group) accepting the bid. If the permitted bid is for less than all of the shares, the common shares and the non-voting shares are to be considered one class for take-up and pay calculations. The Plan does not require the permitted bid to be open for acceptance for any longer than the minimum period otherwise prescribed by applicable securities laws.

(h) Stock Options and Warrants

The Corporation has the following share purchase options and warrants outstanding at September 30, 2006

Expiry Date	Exercise Price	September 30, 2005	Expired/ Cancelled	Exercised	Granted	September, 30, 2006
COMMON SHARES						
June 30, 2006	6.00	13,700	(13,700)	–	–	–
June 20, 2006	3.30	509,092	–	(509,092)	–	–
Balance	-	522,792	(13,700)	(509,092)	–	–
Weighted Average Price	-	3.37	6.00	3.30	–	–
NON-VOTING SHARES						
December 23, 2009	3.30	5,310,000	(45,000)	(48,332)	–	5,216,668
August 12, 2010	5.01	190,000	–	–	–	190,000
December 19, 2010	4.40	–	–	–	215,000	215,000
February 16, 2011	4.90	–	–	–	160,000	160,000
May 10, 2011	4.90	–	–	–	155,000	155,000
August 11, 2011	5.10	–	–	–	50,000	50,000
Balance		5,500,000	(45,000)	(48,332)	580,000	5,986,668
Weighted Average Price		3.36	3.30	3.30	4.73	3.49

All of the options for the non-voting shares vest as to 1/3 after each of the first, second and third anniversaries of the date of the grant. As at September 30, 2006, 1,802,222 of the options for the non-voting shares are exercisable. The weighted average remaining contractual life for the non-voting share options is 2.94 years. The weighted average assumptions utilized by management in the Black Scholes model valuation for determining the compensation expense related to the options is a risk free interest rate of 4.25%, an expected volatility rate of 17%, an expected annual dividend rate of 3% and an expected life of 3 years.

Stock based compensation expense of $762,110 pertaining to the stock options was recorded during the year ended September 30, 2006 ($507,000 – year ended September 30, 2005), with a corresponding increase in contributed surplus.

(i) Issuance of Shares – Contingent Incentive Plan

In February of 2006, the Corporation issued 1,690,790 non-voting shares as satisfaction of its obligations under the Contingent Incentive Plan. In accordance with the accounting policies for stock-based compensation, the obligation was recorded in stock-based compensation expense and contributed surplus as the awards vested, based upon the fair value of the awards when they were granted. As a result of the share issue, $3,031,950 has been added to the stated value of the non-voting shares while contributed surplus has been reduced by a corresponding amount. The issuance does not result in any current period expense as the awards had been fully vested prior to the current period and therefore the award had been fully expensed before this period.

(j) Issues in Exchange for Property

As part of the consideration for the acquisition of a property the Company issued 200,000 non-voting shares, valued at $5.00 per share, to the vendors of the property.

(k) Issuance of Shares – Management Incentive Plan

In August of 2006, the Corporation issued 3,160,480 non-voting shares as satisfaction of its obligations under the Management Incentive Plan. In accordance with the accounting policies for stock-based compensation, the obligation was recorded in stock-based compensation expense and contributed surplus as the awards vested, based upon the fair value of the awards when they were granted. As a result of the share issue, $9,544,650 (being the amount expensed prior to the issuance) has been added to the stated value of the non-voting shares while contributed surplus has been reduced by a corresponding amount.

(l) Weighted Average Number of Shares

The weighted average number of shares issued and outstanding for the year ended September 30, 2006 was 51,463,385 (year ended September 30, 2005 – 44,963,402). The weighted average number of shares utilized for the diluted per share calculations was 53,678,419 year ended September 30, 2006 (year ended September 30, 2005 – 50,844,623).

(m) Earnings Per Share

The net income utilized to calculate diluted earnings per share is the same as the net income utilized to calculate basic earnings per share in both periods.

The weighted average number of shares outstanding is adjusted as follows for calculating the weighted average number of shares for purpose of calculating diluted earnings per share.

(000's)	Year ended September 30, 2006	Year Ended September 30, 2005
Weighted average number of shares – Basic	51,463	44,963
Management and contingent incentive plan	–	4,577
Share purchase loans	585	321
Stock options and warrants	1,630	984
Weighted average number of common shares - diluted	53,678	50,845

14. Stock-based Compensation

In connection with the acquisition of the Partnership, the Corporation agreed to assume certain obligations related to two unit based compensation plans of the Partnership, the Management Incentive Plan ("Management Incentive Plan") and the Participant's Contingent Incentive Plan ("Contingent Incentive Plan"). During 2006, all obligations under the Management Incentive and Contingent Incentive Plan were settled through the issuance of Non-Voting shares (see below).

(a) Management Incentive Plan

Under the Management Incentive Plan, participants, all of whom were management employees, were to receive either cash or Partnership units of equal value, at the discretion of the general partner, equal to their proportionate share of the increase in the Partnership's net asset value from the date of grant, May 31, 2003, to the settlement date. The Corporation agreed to accept this obligation based upon having the unit settlement converted to a share settlement in the form of non-voting shares valued at a price of $3.02 per share. The Corporation intended to settle the plan by issuing shares. 50% of the awards vested on July 31, 2005, and the remaining 50% of the awards vested on July 31, 2006. The plan value had been established at $9,544,650 at December 23, 2004 therefore the maximum number of non-voting shares that would be issued under the plan was 3,160,480 shares.

Parkbridge recorded compensation expense relating to the Incentive Plan of $1,256,000 for the year ended September 30, 2006 with a corresponding increase to contributed surplus (year ended September 30, 2005 - $3,343,000). In the aggregate $9,544,650 of compensation expense has been recorded to date in respect of the Management Incentive Plan. In August of 2006 the Corporation issued 3,160,480 non-voting shares as full satisfaction of its obligations under the Management Incentive Plan (see Note 13(k)).

(b) Contingent Incentive Plan

Under the Contingent Incentive Plan, participants were to receive, on December 31, 2006, 30,320 Partnership units or cash of equal value, at the discretion of the general partner. The Corporation agreed to accept this obligation based upon having the unit settlement converted to a share settlement in the form of non-voting shares valued at a price of $3.02 per share. The Corporation intended to settle the plan by issuing shares. The plan value had been established at $5,106,186 at December 23, 2004 therefore the maximum number of non-voting shares that would be issued under the plan was 1,690,790 shares.

The fair value of the awards under this plan was measured as of the grant date May 31, 2003, and the total fair value of $3,031,950 was expensed over the vesting period which ended on July 1, 2004. As such, compensation expense relating to the Contingent Incentive Plan has been fully recognized prior to the current reporting period. For the twelve months ended September 30, 2006 $nil was expensed (twelve months ended September 30, 2005 - $nil). In February of [illegible] the Corporation issued 1,690,790 non-voting shares in full satisfaction of its obligations under the Contingent Incentive Plan (See Note 13(i)).

15. Contributed Surplus

Contributed surplus for the years presented includes stock based compensation expense related to the following:

($000's)	Year Ended September 30, 2006	Year Ended September 30, 2005
Contributed surplus, opening balance	12,126	7,977
Stock-based compensation		
Management Incentive Plan	[illegible]	3,343
Stock options	[illegible]	[illegible]
Share purchase loans	[illegible]	[illegible]
	2,310	4,0[illegible]3
Transfer to share capital		
Contingent incentive plan (See Note 13 (i))	(3,032)	–
Management incentive plan (See Note 13 (k))	(9,544)	–
Exercise of stock options	(36)	–
Exercise of broker warrants	(136)	136
	(12,748)	136
Contributed surplus, closing balance	1,688	12,126

16. Related Party Transactions

At September 30, 2006, Parkbridge had a note receivable in the amount of $250,000 due from 1361764 Ontario Limited (September 30, 2005 - $250,000), which is owned by a former partner of the Partnership, who is now a shareholder and officer of the Corporation. The amount is unsecured and is payable on demand. Interest is charged at a rate of 4.5% per annum with interest payments being received quarterly. The Corporation also made loans to corporations controlled by three members of the Partnership's management pursuant to a subscription agreement (see Note 13).

Included in accounts payable at September 30, 2006 is an amount of $1,030,703 (September 30, 2005 - $855,396) owing to Parkbridge Communities Inc., a company providing management services to the Corporation. These amounts, which were incurred in the normal course of operations, have been recorded at the exchange amount which represents the fair market value as negotiated with any third party. Parkbridge Communities Inc. is owned by an entity controlled by one of the former partners of the Partnership who is now an officer and director of the Corporation. Total management fees expensed during the year ended September 30, 2006 were $3,689,269 (year ended September 30, 2005 - $2,753,701).

During the year ended September 30, 2005, the former Partners of the Partnership loaned the Partnership $13,675,091 in the form of a bridge loan to complete certain of the acquisitions discussed in Note 4. The loans were repayable on demand and incurred interest at the rate of 10% per annum. The full balance of the loans was repaid in December of 2004 along with interest in the amount of $224,257.

17. Commitment and Contingencies

Management Contract

On December 23, 2004 the Corporation entered into an amended management contract with Parkbridge Communities Inc. ("PCI" or the "Manager") (see Note 16) whereby PCI provides certain management services to the Corporation including asset management, oversight of property management, acquisitions, dispositions, development, financing and all head office accounting, administration, reporting and compliance services. The manager incurs all costs related to the provision of these services. The fees payable under the contract consist of an annual fee of 1% of the adjusted gross book value of the assets of the Corporation, plus 5% of rental revenues from each property. The adjusted gross book value of the assets at September 30, 2006 was determined to be $328,494,748 (September 30, 2005 - $231,837,257) which is the deemed gross asset value of the transactions completed on December 23, 2004 plus the change in the gross book value of the real estate assets to September 30, 2006. The management contract has been terminated effective September 30, 2006 as a result of an agreement between the Corporation and the owner of PCI, as reviewed and approved by the independent members of the Corporation's Board of Directors. The Corporation has agreed to terminate the contract and internalize management for an agreed price of $8 million plus $400,000 for early termination of the contract. As a result of the agreement and in accordance with CICA's EIC Abstract #138 on the treatment of the internalization of management contracts, the purchase price has been expensed in the current period to the extent that the purchase price does not represent the acquisition of identifiable assets. As the termination did not result in any significant assets, beyond the services of the employees delivering the services, the result is an $8.4 million charge to expense and Internalization liability in the year ended September 30, 2006.

Landlord and Tenant Legislation

Communities in Alberta are governed by the Mobile Home Sites Tenancies Act and in Ontario by the Tenants Protection Act.

Contingent Liabilities

Parkbridge is party to various legal actions resulting from its operating activities. These actions are routine litigation and administrative proceedings arising in the ordinary course of business, some of which are covered by liability insurance, and none of which are expected to have a material adverse effect on the consolidated financial condition, results of operations or cash flows of Parkbridge and its subsidiaries taken as a whole.

As of September 30, 2006, Parkbridge's outstanding purchase obligations with respect to new homes to be delivered and installed in Parkbridge's communities totaled $1,850,362 (September 30, 2005 - $1,940,387). As of September 30, 2006, Parkbridge's purchase commitments with respect to development expenditures totaled $3,101,000 (September 30, 2005 - $970,800).

Financial Commitments and Guarantees

Parkbridge has no material financial commitments or guarantees that are not reflected in these consolidated financial statements. Parkbridge has granted certain environmental indemnities to certain lenders in the normal course of borrowing. Parkbridge does not foresee any financial obligation arising from these indemnities.

18. Financial Instruments

Financial instruments, which include accounts receivable, secured debt and accounts payable, are recorded at the lower of their cost and estimated realizable value. Except as disclosed in Note 11, the fair value of all financial instruments approximates their carrying values given the relatively short period to maturity.

Interest Rate Risk

Parkbridge is exposed to interest rate risk arising from fluctuations in interest rates. This risk is mitigated since the interest rates applicable to a substantial portion of the Corporation's debt are fixed for the long term. As at September 30, 2006, $140.0 million of the total of $143.5 million in debt carried a fixed rate of interest with a weighted average rate of 5.88% (September 30, 2005 – $67.2 million of the total of $71.6 million in debt carried a weighted average interest rate at 6.11%). The corporation does not use derivative instruments to reduce its exposure to interest rate risk.

Credit Risk

Credit risk results from the possibility that Parkbridge's tenants may be unable to fulfill their rental commitments due to financial difficulties. This risk is minimized by the large number of tenants and because a credit assessment of prospective tenants is performed prior to entering into a rental agreement.

19. Supplemental Information

Canadian generally accepted accounting principles requires that segment disclosures present the measure(s) used by the chief operating decision maker for purposes of assessing such segments' performance. Parkbridge's chief operating decision maker is comprised of its executive senior management team who use several financial measures to assess the performance of the business. Parkbridge's chief operating decision makers assess and measure operating activities based on contribution margins from each property including rental operations and home sales activities. As a result, Management has identified only one reportable segment. The supplemental information provided in the following table may be useful to the reader of these financial statements.

	Year Ended September 30, 2006 *($000's)*			
	Communities	Resorts	Corporate, Interest and Other	Total
Operations				
Revenue	22,215	17,112	–	39,327
Operating expenses	(8,396)	(11,481)	–	(19,877)
Brokerage and resale income	215	932	–	1,147
	14,034	6,563	–	20,597
Home Sales				
Revenue	24,277	5,112	–	29,389
Cost of sales and expenses	(20,798)	(4,120)	–	(24,918)
Operating expenses	(847)	(133)	–	(980)
	2,632	859	–	3,491
Operating Income	16,666	7,422	–	24,088
Asset management expenses	–	–	(2,774)	(2,774)
Interest, net	(4,958)	(1,566)	55	(6,469)
Depreciation and amortization	(2,576)	(1,297)	(75)	(3,948)
Stock-based compensation	–	–	(2,310)	(2,310)
Defeasance loss	–	–	(2,097)	(2,097)
Internalization costs	–	–	(8,400)	(8,400)
Income tax	–	–	6,572	6,572
Net income (loss)	9,132	4,559	(9,029)	4,662
Assets (September 30, 2006)	221,402	74,718	19,174	315,204
Capital additions	47,373	22,787	1,964	72,174

	Year Ended September 30, 2005 ($000's)			
	Communities	Resorts	Corporate, Interest and Other	Total
Operations				
Revenue	15,503	9,786	–	25,289
Operating expenses	(5,356)	(6,085)	–	(11,441)
Brokerage and resale income	28	342	–	370
	10,175	4,043	–	14,218
Home Sales				
Revenue	12,090	4,227	–	16,317
Cost of sales and expenses	(9,653)	(3,309)	–	(12,962)
Operating expenses	(615)	(281)	–	(896)
	1,822	637	–	2,459
Operating Income	11,997	4,680	–	16,677
Asset management expenses	–	–	(1,940)	(1,940)
Interest, net	(3,124)	(730)	168	(3,686)
Depreciation and amortization	(1,642)	(736)	(58)	(2,436)
Stock-based compensation	–	–	(4,013)	(4,013)
Income tax	–	–	(1,201)	(1,201)
Net income (loss)	7,231	3,214	(7,044)	3,401
Assets (September 30, 2005)	136,279	51,684	6,258	194,221
Capital additions	37,424	21,664	1,573	60,661

20. Statement of Cash Flows

Cash and cash equivalents consists of the following:

($000's)	September 30, 2006	September 30, 2005
Beginning of year		
Cash, cash equivalents and restricted cash	3,326	–
Deduct: Restricted cash	(546)	(461)
	2,780	(461)
End of year		
Cash, cash equivalents and restricted cash	6,069	3,326
Deduct: Restricted cash	(697)	(546)
	5,372	2,780

21. Subsequent Events

Acquisitions

Subsequent to year end, Parkbridge acquired one Community (376 sites expandable to approximately 526 sites) and one Resort (185 sites) for a total cost of $15.9 million.

Parkbridge had also entered into binding purchase and sale agreements to acquire two Communities (307 sites) and two Resorts (839 sites expandable to approximately 1,179 sites) for a total cost of approximately $21.6 million. It is anticipated that these acquisitions will be completed by early January 2007.

Long Term Financing

Subsequent to year end, Parkbridge arranged long term financing on one property consisting of up to a $10.5 million mortgage, at a rate to be determined on funding, to be fixed for a term of ten years. The mortgage will be secured by the property with no corporate guarantees beyond customary environmental indemnities.

CORPORATE INFORMATION

Directors

Barry Emes [2]
Lead Director
Corporate Director & Lawyer
Calgary AB

Walter Borthwick [2]
Former Chairman of the
Ontario Municipal Employees
Retirement System (OMERS)
Wasaga Beach ON

Ian Cockwell [1,2]
President & CEO
Brookfield Homes Corporation
Oakville ON

Joseph F. Killi
Chairman
Parkbridge Lifestyle Communities Inc.
Calgary AB

Gary Perron [1,2]
Managing Director & Senior Vice
President
BMO Nesbitt Burns Inc.
Calgary AB

John Ratzke Sr.
President
Parkside Holdings Ltd.
Red Deer AB

David Richards [1]
Managing Director
Network Capital
Calgary AB

Norbert Warnke [1]
President, Regency/Chateau Care
Corporation
King City ON

1. Audit Committee
2. Governance & Compensation Committee

Officers

Joseph F. Killi
Chairman

David Rozycki
President, Eastern Operations and
Co-Chief Executive Officer

Iain Stewart
President, Western Operations and
Co-Chief Executive Officer

Glenn McCowan
Vice President, Finance,
Chief Financial Officer & Secretary

Randy Jones
Vice President, Western Operations

John Ratzke Jr.
Vice President, Development, Planning
& Acquisitions

Bill Wells
Vice President, Operations and Sales,
Southwestern Ontario

Auditors

Deloitte & Touche LLP
Calgary AB

Registrar & Transfer Agent

Computershare Trust Company of Canada

Stock Exchange Listing

The Toronto Stock Exchange Symbols:
Common shares – **PRK**
Non-voting shares – **PRK.A**

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